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United Nations

Voluntary funds administered by the United Nations High Commissioner for Refugees

Financial report and audited financial statements

for the year ended 31 December 2011

and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-seventh Session
Supplement No. 5E

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Report of the Board of Auditors

United Nations • New York, 2012

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal

30 March 2012

Pursuant to the financial rules for voluntary funds administered by the United Nations High Commissioner for Refugees, we have the honour to submit the accounts for the year 2011, certified and approved in accordance with article 11.4 of these rules.

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries with other officials of the organization, the following representations in connection with your audit of the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2011:

1. We are responsible for preparing financial statements, which properly present the activities of the organization, and for making accurate representations to you. All of the accounting records have been made available for the purposes of your audit, and all of the transactions which occurred in the financial period have been properly reflected and recorded by the organization in the accounting records. All other records and related information have been made available to you.

2. The financial statements were prepared in accordance with:

(a) The United Nations system accounting standards;

(b) The Financial Regulations of the United Nations;

(c) The financial rules established by the High Commissioner, in consultation with the Executive Committee;

(d) The accounting policies of the organization, as summarized in note 2 to the financial statements. These accounting policies have been applied on a basis consistent with the preceding financial periods.

3. The non-expendable property disclosed in note 17 to the financial statements is owned by the organization and is free from any charge. The cost of the non-expendable property in existence as at 31 December 2011, as disclosed in the note, was fairly stated.

4. The value of cash and inter-agency balances recorded is not impaired and, in our opinion, is fairly stated.

The Chair of the Board of Auditors
United Nations
New York

5. All material accounts receivable have been included in the financial statements, and represent valid claims against debtors. Apart from the estimated uncollectable amounts, recorded under the provision for doubtful accounts receivable, we expect all significant accounts receivable as at 31 December 2011 to be collected.

6. All known accounts payable have been included in the accounts.

7. The unliquidated obligations recorded represent valid commitments of the organization and were established in accordance with the financial rules.

8. All material, legal or contingent liabilities have been appropriately reflected in the financial statements.

9. Except as disclosed in the financial statements, the financial position of the organization was not materially affected by:

(a) Charges or credits relating to prior years;

(b) Any changes in the basis of accounting.

10. All expenditure reported in the period was incurred in accordance with the financial rules of the organization and any specific donor requirements.

11. All commitments against resources of future financial periods have been disclosed as required by the United Nations system accounting standards.

12. All losses of cash or receivables, ex gratia payments, presumptive frauds and frauds, wherever incurred, were communicated to the Board of Auditors.

13. Disclosure was made in the accounts of all matters necessary for the financial statements to present fairly the results of the transactions in the period.

14. There have been no events since the date of the statement of assets and liabilities that necessitate revision of the figures included in the financial statements or a note thereto.

(*Signed*) Kumiko **Matsuura-Mueller**
Controller and Director
Division of Financial and Administrative Management

(*Signed*) António **Guterres**
United Nations High Commissioner for Refugees

30 June 2012

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2011.

(*Signed*) **Liu Jiayi**
Auditor-General of China
Chair of the Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

We have audited the accompanying financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2011, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I), the statement of assets, liabilities, reserves and fund balances (statement II), the statement of cash flows (statement III) and the supporting schedules, statements and explanatory notes.

Responsibility of management for the financial statements

The United Nations High Commissioner for Refugees is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control as he or she deems necessary to permit the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit includes the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an evaluation of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the High Commissioner as at 31 December 2011 and the financial performance and cash flows for the year then ended, in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

In our opinion, the transactions of the High Commissioner for Refugees that have come to our notice, or that we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations, the financial rules for voluntary funds administered by the High Commissioner and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa

30 June 2012

Chapter II
Long-form report of the Board of Auditors

Summary

The Office of the United Nations High Commissioner for Refugees (UNHCR) provides support (food and shelter) and protection services (security and legal support) to some 25.2 million persons forcibly displaced within or beyond their countries of origin. It operates as a devolved organization with over 7,700 staff, most of whom work at its 408 offices located in 126 countries. It provides support in long-term situations and for such humanitarian emergencies as the recent large-scale displacements in Libya and Somalia. It is funded almost entirely by voluntary contributions and in 2011 spent $2.28 billion, an increase of $356 million compared with 2010.

The Board of Auditors has audited the financial statements and reviewed the operations of voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2011. The audit was carried out by examining financial transactions and operations at UNHCR headquarters in Geneva and its Global Service Centre in Budapest, and through field visits to UNHCR operations in Kenya, the Sudan, Thailand and in Dubai, United Arab Emirates.

Opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the High Commissioner as at 31 December 2011 and the financial performance and cash flows for the year then ended, in accordance with the United Nations system accounting standards.

Overall conclusion

UNHCR has continued to deliver beneficial support and protection to millions of displaced people throughout the world in difficult circumstances, including some challenging rapid-onset crises in 2011.

In response to the Board's report on the financial statements for the year ended 31 December 2010, UNHCR has implemented an action plan designed to address the Board's recommendations and has made significant progress in some areas, such as the processing of bank reconciliations and the preparation of high-quality draft financial statements for audit. In other areas, such as the development of robust management information and the professionalization of specialist functions such as finance and procurement, UNHCR continues to face significant challenges. While progress has been made, an organization-wide approach to risk management has not yet been implemented.

UNHCR is a diverse and globally dispersed operation with an internal control framework which delegates extensive authority from headquarters to country representatives. Such extensive delegation requires an effective accountability framework to ensure the compliance of country representatives and their staff with central policies and financial regulations and rules. The Board considers that the

system of delegation and accountability is not working as consistently or effectively as it should. The Board has found variable levels of compliance with basic rules for the conduct of business in the field. In areas such as asset management and management of implementing partners, UNHCR is supplementing existing arrangements with stronger central oversight; however, ensuring compliance across the UNHCR network will require improved and informed management oversight and clearer accountability in the event of non-compliance.

In summary, management recognizes many of the issues that UNHCR must deal with and is taking positive action to address the issues raised in both the previous and present report of the Board. In particular, UNHCR recognizes the need to recruit staff with genuine and relevant professional expertise and experience for key operational positions, for example, in supply management. However, UNHCR has not yet embedded a systematic and quantified approach, linking financial management information to output measurement, backed up with effective performance, financial and risk management. These are the necessary conditions for UNHCR to be able to demonstrate the cost-effective delivery of its vital work for refugees.

Key findings and recommendations

Preparation of financial statements

In contrast to 2010, UNHCR was well prepared for the final audit of its 2011 financial statements. Senior management took clear responsibility for the draft financial statements and presented high-quality drafts for audit, which were supported by a clear audit trail.

Financial management

While some significant improvements were noted, the Board found continuing weaknesses in control and financial management oversight in some areas. In particular, weaknesses and inconsistencies in respect of compliance with the UNHCR verification framework continue to exist. As in 2010, the Board identified deficiencies in monitoring and control by UNHCR of the performance of implementing partners, including instances of failure to comply with the requirements of the UNHCR verification framework.

Progress made towards the implementation of the International Public Sector Accounting Standards

The Board noted the increased and concerted efforts made by UNHCR to prepare for the implementation of the International Public Sector Accounting Standards (IPSAS) from 1 January 2012. UNHCR has set in place firm plans for establishing the opening balances and for dry-run initiatives throughout 2012. While it is too early to conclude that the implementation of IPSAS will be successful, the organization is far better placed than when the Board reported on the issue in 2011.

There remains concern about the readiness and robustness of the UNHCR inventory systems and its asset registers, particularly in respect of reliable information on its property assets. Also, there remains a need to identify and document the benefits expected from the implementation of IPSAS.

Organization risk management

UNHCR has not yet implemented a systematic, organization-wide approach to risk management. Following research undertaken in 2011, UNHCR expects to pilot an approach in 2012 and to implement it throughout the organization from 2013.

Procurement

The Board selected the area of procurement for detailed examination in 2011. In 2011, UNHCR spent some $539 million on goods and services, of which goods and services amounting to $247 million were procured centrally (45 per cent) and the rest locally. Cost-effective supply management is critical to the successful delivery by UNHCR of its global operations and of its services to displaced populations. The Board notes that UNHCR recognizes that it faces many challenges in enhancing its capacity and performance in this area. The organization is taking action in that regard but has identified the following main areas for improvement:

- **Low levels of professionalism and training; designated supply officers are in place in only one third of the 126 countries in which UNHCR purchased goods in 2011.** In two thirds of the countries in which UNHCR purchased goods in 2011, supply responsibilities were met by other staff, typically administrative officers. Designation as a supply officer does not indicate professional status. External specialist recruitment, or training for supply qualifications, remains the exception. The organization does not know how many officers working in supply hold relevant professional qualifications; acquiring or developing professional skills in procurement or supply management across the network has not been until recently a corporate priority.

- **Poor information flows. Structured data on the performance of the procurement function are generally absent,** in particular as regards the timeliness and completeness of delivery by suppliers. Without objective data, contract management decisions rely too much on the subjective assessments of suppliers by UNHCR supply staff, which increases the organization's exposure to poor value procurement and fraud.

- **Failure to implement key performance indicators at the country level. A consistent corporate framework for performance measurement in procurement has yet to be finalized and the UNHCR Supply Manual does not specify a framework for performance measurement at the country level.** UNHCR has developed five corporate-level key performance indicators which cover relevant aspects of the supply function, but most are not yet sufficiently robust for reporting to senior management owing to issues with regard to the reliability of the underlying data and difficulties in their interpretation. The indicators are not yet cascaded for interpretation and use at the country level.

While the Board noted much scope for financial savings in supply management, it was unable, given the current state of the UNHCR financial and management information systems, to estimate a potential figure. Even a 5 per cent saving in overhead and procurement costs would equate to more than $30 million, which amount would more than cover any future investment in the professionalization of

this key corporate service. To achieve this, UNHCR needs good supply management information and metrics generated by an improved information system and procedures.

In the light of the above-mentioned findings, the Board makes detailed recommendations in the main part of the present report. In summary, they are that UNHCR:

- **Develop appropriate tools for UNHCR staff to detail and document the partner verification work that is performed, and enhance the training available to all monitoring staff to ensure that they are conversant with the relevant rules and procedures governing implementing partners;**
- **Identify any systematic shortcomings in existing systems and working practices and establish enhanced systems and controls for generating asset data;**
- **Proceed with the implementation of an organization-wide risk management approach;**
- **Develop a clear and documented strategy to extend support to the field for the tendering of services, including clear prioritization, approval from the Contracts Committee for the choices made, and the development of model service specifications;**
- **Develop and maintain viable key performance indicators for procurement, particularly in regard to delivery performance, and specify the indicators to be maintained and used at the country level;**
- **Address the absence of data at the corporate and country level on the timeliness and completeness of delivery by individual suppliers to support contract award decisions and contract management.**

Previous recommendations

Following discussion with the Board on the recommendations made in its report for 2010, UNHCR established an action plan to provide a clearer basis for tracking its progress in responding to the Board recommendations. The Board has considered whether the responses that UNHCR describes as under way reflect tangible progress.

Of the 33 recommendations made in the Board's report for 2010, 8 (24 per cent) were fully implemented and 21 (64 per cent) remain under implementation. This represents an improvement over the rate of implementation of the recommendations made for 2009, of which only 13 per cent were fully implemented. With respect to the 4 recommendations made for 2010 (12 per cent) which are not yet implemented, the Board has commented on the scope for more tangible or quicker progress. With regard to the audit recommendations made in the 2008 and 2009 audit reports, all of the recommendations have been either implemented or subsumed in the 2010 audit report of the Board. The status of the outstanding recommendations of previous years are reflected in annex I to the present report.

The Board is content that UNHCR is responding positively to the concerns previously raised. While much action is ongoing, this in part reflects the fact that not all recommendations are expected to be fully implemented within one year. The Board considers that the use of the action plan enables UNHCR to demonstrate clear progress. The Board will continue to work with UNHCR management to address its concerns and to monitor the effectiveness of the action taken.

A. Background

1. The Office of the United Nations High Commissioner for Refugees (UNHCR) provides support (food and shelter) and protection services (security and legal support) to some 25.2 million persons forcibly displaced within or beyond their countries of origin (of a total 33.9 million people of concern to UNHCR). It operates as a devolved organization, with over 7,700 staff, including staff on temporary appointments, most of whom work at its 408 offices located in 126 countries. UNHCR provides support in long-term displacement situations and in dealing with humanitarian emergencies, such as the large-scale displacements in Libya and Somalia in 2011.

2. UNHCR is undergoing multi-year structural and management changes, designed to reinforce its capacity to deliver its services and meet its mandate. Its work in 2011 was characterized by further consolidation of ongoing changes to its planning, budgeting and management tools and structures.

B. Mandate, scope and methodology

3. The Board of Auditors has audited the financial statements of UNHCR and has reviewed its operations for the financial period ended 31 December 2011 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with the Financial Regulations of the United Nations, the financial rules for voluntary funds administered by the High Commissioner and, where applicable, the Financial Rules of the United Nations, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

4. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNHCR as at 31 December 2011 and the results of its operations and cash flows for the financial period then ended, in accordance with the United Nations system accounting standards. This included an assessment of whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing body and whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for voluntary funds administered by the High Commissioner. The audit included a general review of financial systems and internal controls, and a test examination of the accounting records and other

supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

5. The Board also reviewed UNHCR operations under financial regulation 7.5, which requires the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNHCR operations. For the period ended 31 December 2011, the Board focused on procurement and supply management.

6. During the course of the audit, the Board visited UNHCR headquarters in Geneva and its Global Service Centre in Budapest, and examined field operations in Kenya, the Sudan, Thailand, and in Dubai, United Arab Emirates. The Board continued to coordinate its work with the Office of Internal Oversight Services (OIOS) to avoid overlap.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. It also covers matters of internal oversight, pursuant to the specific request by the Advisory Committee on Administrative and Budgetary Questions in a letter dated 24 January 2012 that the Board report on the internal audit arrangements of UNHCR.

8. The Board's report was discussed with UNHCR management, whose views have been appropriately reflected.

C. Findings and recommendations

1. Follow-up of previous recommendations

9. Following discussion with the Board, UNHCR established an action plan to provide a clear basis for tracking its progress in implementing the Board's previous recommendations. The Board considered whether the responses that UNHCR describes as under way reflect any tangible progress and reports below, on an exception basis. The Board is content that UNHCR is responding positively to the concerns raised previously and, while much action is ongoing, considers that use of the action plan enables UNHCR to demonstrate clear progress. The Board recognizes that many of the significant improvements will take a number of years to deliver and for that reason is not concerned with an implementation rate of 24 per cent nine months after its previous audit. The Board will continue to work with UNHCR to monitor the effectiveness of the action taken. The status of implementation of the Board's recommendations is set out in annex I and summarized in table II.1.

Table II.1
Status of previous recommendations of the Board of Auditors

	Fully implemented	*Partially implemented*	*Not implemented*
Number of recommendations	8	21	4
Percentage	24	64	12

10. As at 31 March 2012, of the 33 recommendations made for 2010 and previous years, 8 (24 per cent) were fully implemented, 21 (64 per cent) were under

implementation and 4 (12 per cent) were not implemented. This represents an improved rate of implementation since 2009 when only 13 per cent of recommendations were implemented, and movement towards the 42 per cent rate of implementation achieved in 2008.

Recommendations not yet implemented

11. Three recommendations on which the Board considers there is not yet sufficient progress concerned the need for UNHCR to establish a proportionate organization-wide risk management system, project tracking tools, and enhancement of the monthly financial close procedures; these areas are addressed below. A fourth recommendation, concerning common checklists for the verification of expenditure by implementing partner, is addressed in section 7 below, on management of implementing partners.

12. In 2010, the Board recommended that UNHCR establish a simple, organization-wide (i.e., enterprise) risk management approach. The Board noted that, following research and engagement with a range of public and private sector entities, options for the implementation of a risk management strategy were submitted to the Deputy High Commissioner early in 2012. UNHCR currently expects to decide on a proposed approach by mid-2012. The Board notes the consideration by UNHCR of proposals that could support the implementation of its 2010 recommendation.

13. **UNHCR agreed with the Board's recommendation that it examine ways to implement risk management promptly, initially through light-touch risk identification and mitigation arrangements that do not engage all staff and country offices but focus only on high impact and/or high probability risks identified by selected focus groups.** The Board is aware that UNHCR is considering proposals for the assessment of key corporate risks by the end of 2012, which includes the piloting of a full system in at least two field offices and a headquarters division. UNHCR is aiming at worldwide implementation of the system from 2013. Until such time as the new risk management approach is embedded in organizational practice, the Board considers this recommendation not yet implemented.

14. The Board also recommended that UNHCR review the various approaches to tracking the progress of projects across the network, having observed bespoke tracking systems being designed and implemented at the country level. UNHCR informed the Board that it intends to incorporate this action within the next phase of enhancements to the Focus results-based management system, but has not yet determined when this will occur. The Board agrees that UNHCR must ensure that future project tracking systems are consistent with, and support, results-based management through Focus but reiterates the importance of UNHCR making progress in regard to a common platform for the collection of data in the field. This is a vital step if UNHCR is to understand whether it is using its resources cost-effectively, a key point that the Board emphasized in its previous report. The Board will keep this latter area under close review and may follow up as part of an examination in 2012 of delivery in important programmatic areas such as health and education.

15. By enhancing its monthly closure processes to include, for example, more detailed scrutiny of financial records and balances, the Board found that UNHCR is

developing the basis for the introduction of improved processes in mid-2012. However, this recommendation remained unimplemented as at 31 March 2012 as the revised procedures are not yet operational.

16. **The Board therefore reiterates the need for UNHCR to enhance its monthly financial closure processes to include, for example, documented review and validation of asset and liability balances, review of income and expenditure against budgets, and sign-off by the relevant responsible officers at headquarters and in the field of the components of the trial balance for which they are responsible.**

17. UNHCR agreed with the recommendation and stated that it is developing a comprehensive documented review process for the review of key financial statement parameters at headquarters. This will entail review and sign-off by nominated responsible officers of the material balances at month's end, together with an explanation of significant variances. This will subsequently be supplemented by the roll-out of a similar process in the field during third quarter of 2012.

Recommendations partially implemented

18. As requested by the Advisory Committee on Administrative and Budgetary Questions (see A/59/736), the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented, noting that one recommendation related to the year ended 31 December 2007 and another to the year ended 31 December 2009. For 2007, the Board had recommended continued efforts to reduce the number of staff in between assignments. UNHCR advised the Board that, since 2011, it has been awaiting the comments of its Joint Advisory Committee on a new policy for such staff but expects to promulgate new procedures by June 2012. The Board's recommendation for 2009, that UNHCR ensure bank reconciliations are exhaustive and resolve unexplained differences between bank confirmation statements and the general ledger, also remains only partially implemented.

19. The Board noted that full implementation of some of the 22 recommendations for 2010 depended on ongoing medium-term projects, such as the phase 2 enhancement of the Focus results-based management system (see annex I, recommendations 19-21), the new programme for risk-based assessment and management of implementing partners (ibid., recommendations 25, 27 and 29) and the implementation of IPSAS (ibid., recommendations 13, 14 and 18). Some recommendations on protracted refugee situations are to be implemented through revised guidance and action plans.

Recommendations fully implemented

20. In its report for 2010, the Board noted significant deficiencies in the preparation of year-end financial statements, including the absence of adequate audit trails and a lack of detailed and evidenced management review. In response to the Board's previous recommendations, UNHCR has cleansed its accounting records, improved the audit trail supporting the financial statements and strengthened its management review of financial statement preparation. Management presented the annual financial statements for audit in accordance with the agreed timetable, with complete supporting schedules of good quality. The UNHCR management review has also resulted in some enhanced disclosures, providing additional information to users.

2. Financial overview

Overall financial position

21. For UNHCR, 2011 has been a challenging year, with widespread and simultaneous humanitarian emergencies in North Africa and the Middle East, in West Africa and in the Horn of Africa. UNHCR is funded almost entirely by voluntary contributions, with 93 per cent coming from Governments, 4 per cent from intergovernmental organizations and pooled funding, and the remainder from private donors. Income of $2.2 billion (2010: $2.0 billion) primarily comprised voluntary contributions of $2.1 billion (97.5 per cent) and represented a 12 per cent increase over 2010, reflecting continued significant donor support for UNHCR notwithstanding the fiscal constraints faced by many donors.

22. As at 31 December 2011, UNHCR reported a deficit in its reserves of $161.4 million due primarily to the $483 million of unfunded employee benefit liabilities which are not fully offset by surpluses in other funds.[1] However, UNHCR has sufficient reserves to meet its current liabilities and, as at 31 December 2011, had received pledges of $482 million for future periods. It therefore has adequate resources to continue its normal operations for the foreseeable future.

Cash holdings

23. For 2010, the Board highlighted the accumulation of cash and term deposits totalling $437 million. As at 31 December 2011, UNHCR reported cash and term deposits of $535 million, equivalent to 2.8 months of expenditure. During 2011, month-end balances fluctuated between $416 million (January) and $613 million (April), consistently providing cover for between 2.2 and 3.2 months of expenditure. As shown in table II.2, cash held by UNHCR at year end as a multiplier of monthly expenditure has remained broadly consistent over the past five years. These cash and term deposit balances include both encumbered and unencumbered holdings.

Table II.2
Five-year analysis of income, expenditure and cash holdings
(Thousands of United States dollars)

	2007	*2008*	*2009*	*2010*	*2011*
Income	**1 333 967**	**1 651 979**	**1 802 516**	**1 991 661**	**2 171 048**
Annual variation (percentage)	16	24	9	11	9
Expenditure	**1 352 490**	**1 628 272**	**1 795 677**	**1 922 495**	**2 278 380**
Average monthly expenditure	112 708	135 689	149 640	160 208	189 865
Cash and term deposit balance (encumbered and unencumbered)	**300 756**	**342 127**	**382 615**	**437 082**	**534 908**
Expenditure coverage (months)	2.7	2.5	2.6	2.7	2.8

[1] The liabilities for after-service health insurance are separately disclosed in the staff benefits fund and all other funds have positive reserves; overall, however, UNHCR has net negative equity.

24. UNHCR cannot accurately predict the timing of the funding received and therefore requires a certain level of flexibility to manage its cash flows. UNHCR management considers a minimum of two months of cash holdings to be prudent. In the month of December 2011 alone, cash inflows were $369.8 million compared with monthly average inflows of $185.7 million. As a comparison, monthly average cash outflows in 2011 amounted to $177.5 million. As highlighted in the report of the Board for 2010, fluctuating annual funding of programmes places significant pressure on country operations to implement project activities quickly, heightening the risks to control, compliance and value for money.

Working Capital and Guarantee Fund

25. As disclosed in note 2 (b) to the financial statements, UNHCR maintains the Working Capital and Guarantee Fund to replenish the Annual Programme Fund and to meet essential payments and guarantee obligations pending receipt of contributions pledged. The Fund's ceiling of $50 million was last reviewed by the Executive Committee in 1999, when UNHCR income and expenditure were $700 million and $800 million, respectively. This ceiling now only provides expenditure coverage for one week, whereas UNHCR has operated over the past five years with cash reserves significantly in excess of that amount.

26. **The Board recommends that UNHCR: (a) review its working capital requirements, including the adequacy of the $50 million ceiling currently applied to the Working Capital and Guarantee Fund; and (b) manage its programmes and cash flows with the aim of maintaining its average unencumbered cash holdings at a level equivalent to no more than two months of expenditure.**

27. UNHCR agreed with the Board's recommendation, stating that it will review the adequacy of the $50 million ceiling.

3. Financial management

Financial monitoring

28. Regular financial monitoring, which is essential for good management and budgetary control, requires timely information of appropriate detail and a supporting narrative to focus management's attention on areas of concern, unusual activity or risk. UNHCR provides monthly financial reports for senior management within 10 days of month's end, including a comparison of actual expenditure against budget analysed down to the country level. The reports are based on accounting system data but contain no supporting narrative and no analysis of budget variances or key performance indicators, they are not tailored to the needs of different users and they do not provide an overview of UNHCR operations. Therefore, the reports are insufficiently analytical and do not provide a sound basis for the effective monitoring of operations.

29. UNHCR has started to address the deficiencies in the financial management and reporting capacity of the country offices previously identified by the Board, assessing its finance and programme staffing complement against the complexity of operations, and identifying any gaps in capacity. The Board comments further on this issue in the relevant section of the present report.

30. **UNHCR agreed with the Board's recommendation that it enhance its internal financial reporting by developing a thorough understanding of the key information needs required at each level of management, including variance analysis and a dashboard of key indicators for senior management, with sufficient narrative to focus attention on the areas that require attention.**

31. UNHCR stated that it fully acknowledges the importance of quality internal financial reporting to management and will work towards improving its internal financial reporting, taking due account of the points raised by the Board.

Integrity of accounting records

32. The Board recommended in its report for 2010 that UNHCR, in preparation for its adoption of IPSAS, cleanse its accounting records of old and invalid asset and liability balances and enhance its month-end closure procedures so as to reconcile all accounts and maintain the integrity of balances. In response, to help with the logistical challenge of this major one-off exercise, UNHCR engaged a contractor during 2011 to assist in reviewing the bank account, accounts receivable and accounts payable balances. To validate the data, the contractors sought confirmation of balances from field offices and relevant third parties, such as suppliers and customers. Balances which could not be substantiated, or were considered trivial, were recommended for write-off. Other aged or doubtful receivables, where investigations were ongoing, were identified and provision for doubtful amounts was made in the financial statements (see note 13).

33. The financial statements of UNHCR disclose a $12.9 million total write-off of accounts receivable (see note 6) and a further $32.0 million allowance for doubtful accounts receivable (see note 14). In total, these write-downs of amounts owed to UNHCR represent a loss of $44.9 million which has accumulated over many years and reflects a gap in the management by UNHCR of its current assets and current liabilities balances, an issue explored in the Board's report for 2010. While the Board is satisfied with the adjustments made to the financial statements for the year ended 31 December 2011, in order to avoid similar problems in future years, UNHCR should review on a regular basis working capital balances to ensure that they remain valid.

34. **UNHCR agreed with the Board's recommendation that it analyse the causes of the write-offs and allowances for doubtful accounts recorded in 2011 and introduce monthly reviews of working capital balances in order to safeguard its assets.**

35. UNHCR stated that, in addition, it will develop ageing reports of key current assets and current liabilities for scrutiny as part of the review and sign-off process referred to above.

Financial management capacity

36. Over the past five years, UNHCR spending has increased from $1.352 million to $2.278 million, a 69 per cent increase. Over the same period, the proportion of UNHCR expenditure channelled through programmes with expenditure above $50 million has increased from 19 to 39 per cent, reflecting the increasing scale and costs of major humanitarian crises and the increasing complexity of the financial management challenges facing UNHCR. The demands on high-quality financial

management throughout the organization will also increase following its adoption of IPSAS.

37. Over the same period, the number of field-based administrative and finance staff has only increased from 137 to 153, and the Board noted that there were only 19 project control officers in the field with responsibility for validating the work of implementing partners. For 2011, the Board has continued to observe weaknesses in financial oversight and control at the country office level: for example, the failure to monitor and validate payables, receivables and other working capital items in accordance with UNHCR instructions, and failures in verifying the expenditure of implementing partners.

38. In response to these issues and the Board's previous recommendation on the financial management capacity of UNHCR, the High Commissioner approved in the second quarter of 2012 the establishment of an additional 55 posts (5 at headquarters and 50 in the field) across the areas of finance, project control and regional financial management with the aim of addressing current shortfalls. While UNHCR has determined that there is need for these additional resources, the effectiveness of its response depends on the development of appropriately detailed job descriptions, along with timely recruitment designed to attract candidates with the requisite professional qualifications, knowledge and experience, which at the time of audit had not been developed.

39. **UNHCR agreed with the Board's recommendation that it develop appropriate job descriptions and prioritize the recruitment of suitably qualified personnel for appointment to the approved additional finance and project control posts as soon as practicable.**

40. UNHCR stated that the High Commissioner had approved the creation of 50 finance, administrative/finance and project control positions to supplement the financial management capacity in the field. These positions will be filled in a phased approach which will take into consideration the biennial budget cycle as well as the availability of resources. For the first 24 positions, the recruitment process is scheduled to be completed by 31 December 2012 at the latest. Job descriptions for these positions have already been revised and updated.

Internal control framework

41. The internal control framework of UNHCR relies heavily on transactional controls, such as the authorization procedures embedded in the enterprise resource planning system and, in particular, the manual certification and approval of individual transactions which requires significant management time. As part of the internal control framework, UNHCR operates a system of extensive delegations of authority from headquarters to country representatives. Such extensive delegation requires an effective accountability framework to ensure the compliance of country representatives and their staff with central policies and financial regulations and rules.

42. The Board considers that this system of delegated authority is not working as consistently or effectively as it should, noting that non-compliance with instructions from headquarters at the country office level continued to occur in 2011. For example, in the Sudan, the Board identified weaknesses in the validation of the implementing partner's financial monitoring reports and a lack of extant right of use

agreements covering such assets as vehicles and office equipment. In general, the Board found variable levels of compliance with basic rules for the conduct of business. In areas such as asset management and management of implementing partners, UNHCR informed the Board that it is supplementing existing arrangements with stronger central oversight; ensuring compliance across the UNHCR network will, however, require improved and informed managerial oversight and clearer accountability in the event of non-compliance.

43. The oversight roles of the headquarters and regional offices remain unclear in view of the considerable autonomy given to representatives at country offices. This lack of clarity exposes UNHCR to continued financial risk in the absence of appropriate higher level controls for monitoring activities in the field. Fraud remains a significant risk to UNHCR given its operating environment. In this regard, the Board notes that, during 2011, OIOS issued a report on UNHCR anti-fraud controls in the areas of refugee registration, status determination and resettlement. It concluded that the risk management, control and governance processes in place provided only partial assurance of the effectiveness of the anti-fraud controls.

44. There is no comprehensive up-to-date guidance available on the UNHCR financial risk and control framework. Existing guidance is contained in various memorandums but the Board noted that the guidance was not comprehensive and did not cover, for example, controls over the risk of UNHCR bank accounts being used for money-laundering. The Board noted also that anti-fraud and corruption policies have not been reviewed or updated since June 2008. UNHCR informed the Board that it is developing a comprehensive paper setting out the timeline for establishing anti-money-laundering policies and procedures, which is being linked to the development of a broader policy within the United Nations System Chief Executives Board for Coordination (CEB) Finance and Budget Network.[2]

45. The review by UNHCR of its financial capability highlighted the need for stronger leadership to improve financial management across the organization and the need for greater accountability between the field and headquarters and between its management and staff. It identified as a priority the need for staff to be suitably trained, conversant with financial regulations and rules and equipped with good financial management skills. As noted in paragraph 38, the High Commissioner has approved 55 new posts to enhance capacity.

46. **The Board recommends that UNHCR: (a) implement appropriate high-level financial controls for monitoring activities in the field and review its existing accountability structures to identify and ensure that an appropriate internal controls framework exists and is in operation; and (b) benchmark its accountability structure against similar devolved organizations, working towards a framework that meets operational needs while enhancing accountability and control.**

47. UNHCR agrees in general with the Board's recommendation, and plans to address the gaps in internal financial management controls, including by updating the delegation of authority plan and the revision and updating of the financial manual. With regard to the accountability structure and as recommended, UNHCR

[2] Anti-money-laundering is a wider issue in the United Nations system and the UNHCR Controller has therefore requested the CEB Finance and Budget Network to form a working group to assess the situation and formulate a system-wide policy.

will work towards developing a framework that takes into account the reality in the operational field and its practicability. It will also explore and examine best practices from other devolved organizations operating in the humanitarian field. However, due to the unique profile of UNHCR, its emergency nature, its funding structure and the operational environment in which it operates, the organization is not convinced that there are other sufficiently similar devolved organizations against which UNHCR can benchmark its accountability structure. The Board remains of the view that UNHCR could derive value from such benchmarking, both within and outside the humanitarian field.

48. **The Board also recommends that UNHCR: (a) review and update its current anti-fraud policies and procedures to ensure its fraud detection and monitoring systems are appropriate; and (b) develop comprehensive guidance which addresses anti-money-laundering.**

49. UNHCR agreed with the Board's recommendation. In regard to part (a) of the recommendation, it commented that it will review and update its current anti-fraud policies and procedures, in coordination with its relevant functional divisions. In regard to part (b), it stated that it is in the process of finalizing a concept paper which will lay the basis for developing and establishing guidance on anti-money-laundering. The concept paper aims to review the criteria for control mechanisms to detect and mitigate money-laundering while also applying enterprise risk management techniques. Once the concept paper is prepared, UNHCR plans to share it and consult with other organizations of the United Nations system so as to take due account of their views and experience before finalizing a project plan.

4. End-of-service liabilities

50. End-of-service liabilities are employee benefits payable after the completion of employment. UNHCR financial statements for 2011 report end-of-service and post-retirement liabilities of $483.5 million (2010: $393.7 million). Of this amount, $350.8 million represented after-service health insurance for existing and retired staff. The liabilities are determined by actuarial valuation based on a discount rate of 5.1 per cent (2010: 5.55 per cent), using spot rates for high-quality corporate bonds. The change in rate was due to movements in the relevant bond market which increased the liability by $86.8 million, and was charged as an expense in the UNHCR financial statements for 2011.

51. The process of securing actuarial valuations was more difficult than it should have been because of the poor quality of the data supplied to the actuary. For example, the actuary found duplication when the names of staff members were listed as both active and inactive. Consequently, UNHCR had to carry out a secondary exercise to cleanse the data; the auditors found no significant errors in the revised information provided to the actuary.

52. **The Board reiterates its previous recommendation that UNHCR develop robust and documented quality control procedures to validate the integrity of the data supplied to its actuaries.**

53. UNHCR agreed with the Board's recommendation and stated that it will enhance its control procedures to validate the integrity of data, including those received by third parties such as the United Nations Staff Mutual Insurance Society, the insurance scheme of the United Nations Office at Geneva. In this respect, the

necessary measures are being taken, including clarification with third parties as to the type of data required, with the aim of carrying out a preliminary in-depth analysis of the data prior to their validation. UNHCR will work with internal and external providers of actuarial valuation data well in advance of the exercise to highlight previous data omissions and inaccuracies and work towards a quality set of data for 2012.

Funding of end-of-service liabilities

54. In 2010, the Board highlighted the need for UNHCR to establish specific funding for its end-of-service liabilities which currently amount to $483.5 million. In June 2011, the UNHCR Standing Committee approved a funding strategy whereby from 2012 onwards, a monthly payroll charge of 3 per cent will be applied to the base salary of all qualifying staff. The aim is to establish an initial reserve which will contribute towards funding the overall liability. In addition, $2 million of potential savings from staff costs will be allocated each year to a separate reserve for funding UNHCR repatriation benefit liabilities of $80.4 million.

55. UNHCR plans to formally review its funding strategy every two years to reassess the assumptions and projections against its reserves and, as appropriate, propose adjustments to funding levels. The Board notes the development of a funding strategy as previously recommended and welcomes the commitment of UNHCR to keep the matter under continuous review; the Board will monitor progress and report in that regard in future years.

5. Bank accounts, cash and investments

56. In its financial statements for 2011, UNHCR reports cash and term deposits of $534.9 million (2010: $437 million), including cash at bank and investments.

Bank accounts

57. As at 31 December 2011, UNHCR had 425 separate bank and cash accounts with a combined value of $534.9 million. In response to the Board's previous recommendation on centralizing its banking arrangements, UNHCR has established a centralized payments system at headquarters to reduce the need for local payments but it has not reduced the number of individual bank accounts that it operates. For example, UNHCR still operates some 75 bank accounts in Europe, where many of the euro banking requirements are serviced directly from headquarters. The Board does not consider all of these bank accounts to be necessary across the European region.

58. The Board recognizes that the nature, the structure of the supply chain and the delivery model of UNHCR global operations will always require a substantial number of bank accounts. However, the high number of bank accounts, coupled with the devolved management approach of UNHCR, makes it inefficient to continue to operate them and increases the risks of fraud and error.

59. UNHCR agreed with the Board's reiterated recommendation that it subject all bank accounts to regular and critical challenge and close any unnecessary accounts.

60. UNHCR noted that it periodically reviews the number of bank accounts required, taking into consideration the nature of the accounts, operations, foreign exchange requirements, investment accounts, private sector fund-raising campaigns

and cash accounts. In this connection, UNHCR will: (a) review and establish a target for the required number of bank accounts for all regions by nature of account; and (b) on a continuous basis close all bank accounts identified as inactive and unnecessary.

Bank reconciliations

61. The bank reconciliation process is the key control in identifying, resolving and accounting for differences between the accounting system and bank balances. It is a vital safeguard against fraud and error and the financial rules established by the High Commissioner require the reconciliation of all bank accounts on a monthly basis.

62. The Board has previously highlighted a significant backlog of bank reconciliations and recommended that these be brought up to date and the differences resolved. The Board noted, that during 2011, UNHCR made good progress, with only 2 reconciliations outstanding as at 31 December 2011 compared to 10 (of which only 3 were active bank accounts) at the end of 2010. UNHCR has also: (a) performed daily reconciliations on its more active bank accounts based at headquarters, which account for 60 per cent ($2.77 billion) of all transactions, and could extend this practice to the field; and (b) strengthened its oversight of bank reconciliations performed in the field by increasing the staffing resources that oversee field controls and compliance. UNHCR informed the Board that, from June 2012, its Division of Financial and Administrative Management with its enhanced capacity will reperform a sampling of bank reconciliations on a monthly basis.

63. **The Board recommends that UNHCR, building upon the progress made in terms of performing daily bank reconciliations on high-value accounts, explore the costs and benefits of extending, where feasible, this practice across major bank accounts outside headquarters.**

64. UNHCR agreed with the Board's recommendation, stating its intention to build continuously upon the progress and good practice already established in regard to high-value headquarters accounts. UNHCR noted that it has strengthened its oversight of bank reconciliations performed at the field level with a view to validating field controls and compliance on a monthly basis but that there are some technical limitations to the enterprise resource planning system (MSRP) at the level of the general ledger module that make it difficult to extend the current approach across all accounts for all countries in a highly decentralized functional environment. It is currently not feasible for the field offices to perform bank reconciliations on a daily basis without significant additional staff, and technical and MSRP upgrades. UNHCR will, however, explore the costs and benefits of extending this practice to major bank accounts outside headquarters.

65. The Board noted that one of the three cases of fraud disclosed by UNHCR in 2011 (see sect. E) was initially hidden through an invalid reconciling item. In this regard, it noted the need to reinforce guidance and training for staff concerning the coding and posting of transactions to the correct financial year.

66. **The Board recommends that: (a) the Division of Financial and Administrative Management of UNHCR develop and provide to all relevant staff members programmes of training on month-end and year-end cut-off in bank reconciliation processes and ensure compliance through test checks of**

bank reconciliations; and (b) UNHCR, in its monthly review of bank reconciliations, ensure that transactions are posted to the correct financial period and, during 2012, address the weaknesses identified.

67. UNHCR agreed with the Board's recommendation, stating that it will (a) further expand the scope of existing training for online bank reconciliation and reinforce its guidance on cut-off procedures for bank reconciliations in the memorandums on the monthly closing of accounts to be issued during the third and fourth quarters of 2012, and (b) establish a monthly review procedure on a sampling basis.

6. Non-expendable and expendable property

Non-expendable property

68. UNHCR, as a globally dispersed operation, is highly dependent on effective asset and inventory management. As at 31 December 2011, UNHCR had recorded in its asset register non-expendable property (mainly vehicles and equipment) amounting to $319 million.

69. The Board reviewed the analysis by UNHCR of assets which met the definition of property, plant and equipment under IPSAS. It noted that approximately 38 per cent (3,020 of 7,886 assets), were fully depreciated to nil value,[3] indicating that the useful economic lives attributed to asset classes may be unrealistically short compared to UNHCR operational reality. For vehicles, the proposed accounting policy provides a useful economic life of between 5 and 10 years, but many vehicles are given a life at the lower end of this range. From the analysis performed, attributed lives often understate the full duration of utilization by UNHCR of such assets. The risk is that management information does not fairly state the full costs of utilization for programmes.

70. **UNHCR agreed with the Board's recommendation that it review the attributed useful economic lives of assets, giving particular attention to the useful lives of vehicles in the light of the proposed fleet management policy currently under development.**

71. UNHCR stated that it will review the useful economic lives of its assets, particularly light vehicles, taking into account technical parameters and the conditions in which they are operating.

Rights of use agreements

72. Assets, such as vehicles or office equipment, loaned to implementing partners are subject to rights of use agreements, which assert continued ownership by UNHCR and set out the responsibilities of partners for their custody. Country offices are required to review such agreements annually to ensure that records are up to date and agreements are reissued as appropriate. Despite an increased focus by UNHCR on rights of use agreements as part of its wider improvements in asset management, the Board continued to identify weaknesses. In the Sudan and Thailand, the Board identified instances in which the agreements with implementing

[3] In accordance with United Nations system accounting standards and its own accounting policies, UNHCR depreciates its assets (except for buildings) over their estimated useful lives, although the depreciation is not recorded in the book of accounts.

partners contained inaccurate listings of assets, or had expired and not been replaced. The Board considers that if agreements lapse, UNHCR ownership and the safe custody of its assets are at increased risk.

73. **UNHCR agreed with the Board's recommendation that it: (a) monitor compliance by country offices with the terms of rights of use agreements; and (b) issue instructions to representatives reasserting their responsibility to maintain accurate and up-to-date records of UNHCR assets loaned to implementing partners.**

74. UNHCR stated that it will provide further guidance to field operations on their responsibilities in relation to assets on loan to implementing partners, and will, as in 2011, include assets loaned to implementing partners in its physical verification exercise of property, plant and equipment.

Inventory valuation

75. The Board has previously recommended that UNHCR disclose the value of expendable property, or inventory, in its financial statements to provide more complete and accurate information on its assets. Owing to the ongoing cleansing of its data, UNHCR has deferred such disclosure until the implementation of IPSAS on 1 January 2012, when such disclosure is mandated by those standards, and the Board will review the use by UNHCR of the enhanced information on asset management. The most recent estimate of UNHCR is that it holds expendable property valued at $96.7 million as at 31 December 2011.

Cleansing of asset data

76. During 2011, UNHCR, in response to a previous recommendation of the Board, undertook concerted efforts to cleanse the data supporting its non-expendable property valuations. Its Supply Management Service undertook mid-year and year-end valuation exercises and recorded write-offs and other adjustments in its accounts. Teams from the Supply Management Service visited 21 countries, where approximately 80 per cent of UNHCR assets and inventory by value were held. These missions included physical verification exercises designed to cleanse data supporting both expendable and non-expendable property inventories. Teams delivered training for supply staff, including guidance to ensure damaged and unusable stock was appropriately written off. Country offices were also reminded of the purpose and required frequency of meetings of the local asset management board. Following each mission, the Supply Management Service reported to each country representative, outlining the major findings and recommendations. This significant investment has provided UNHCR with a good basis for improved asset management and it is important that lessons learned through these missions are disseminated more widely at UNHCR.

77. **UNHCR agreed with the Board's recommendation that the Supply Management Service use its work in 2011 to: (a) identify any systematic shortcomings in existing systems and working practices; and (b) establish enhanced systems and controls for generating asset data.**

78. UNHCR stated that it is analysing the root causes for discrepancies identified during the physical verification of assets and through other means on an ongoing

basis, with any weaknesses in its enterprise resource planning system (MSRP) or in the working practices corrected or captured in exception reports.

7. Management of implementing partners

79. Partnerships remain the preferred mode of delivery of UNHCR for field operations. Over the past five years, instalments made to implementing partners increased significantly, from $432 million in 2007 to $794 million in 2011 (an increase of 84.2 per cent), while the number of partners increased by 16 per cent. As at 31 December 2011, UNHCR had received financial monitoring reports covering $500 million (63 per cent) of this expenditure. By 6 June 2012, it had received reports covering $755 million, or 95 per cent, of the expenditure.

Financial monitoring of partners

80. Financial monitoring and verification visits are an important means for UNHCR to control the expenditure of implementing partners and for management to assure itself that the resources for which it is accountable are used for the purposes intended. The Board continued to note (a) that such visits are often undertaken by programme officers rather than finance staff and (b) weaknesses and inconsistencies in the approach and level of compliance with the UNHCR verification framework. In the Sudan, the Board highlighted serious shortcomings in controls over financial verification and the absence of records confirming what verifying officers had examined during visits. In one case, the Board could not find an audit trail from the partner's financial report to UNHCR and its accounting records despite the partner being the subject of a recent UNHCR verification visit. Also, the Board noted that the partner had not performed any bank reconciliations on the separate bank account containing UNHCR funds.

81. In Thailand, the Board found that UNHCR financial validation of its partners' reports was conducted annually, instead of prior to the payment of each quarterly instalment, as required. The Board also found weaknesses in partners' bank reconciliations and a lack of documentation for the receipt and delivery of goods. These issues had not been identified or reported through the UNHCR financial monitoring visits or in the reports of the independent external auditors engaged in Thailand.

82. In addition, the Board noted from an examination of a sampling of 38 verification reports across all country offices substantial variances in the level of detail and narrative presented in support of UNHCR verification of its partners' financial reports.

83. In October 2011, UNHCR established an Implementing Partner Management Service to strengthen its strategic and operational management in relation to its implementing partners. The organization plans to introduce a new management framework based on assessed risk, featuring stronger central oversight, including strengthened procedures for the selection, retention, termination and monitoring of partners, and contracting consultants to advise on moving to a risk-based audit approach. UNHCR informed the Board that it will introduce the new management framework in phases and expects the approach to be fully implemented by early 2014.

84. The Board notes that most of the findings for 2011 relate to weaknesses that have been previously identified, and therefore reiterates and reinforces its recommendations that UNHCR establish common tools and checklists which should be used when undertaking implementing partner verification, and that staff undertaking financial monitoring visits receive appropriate training and be conversant with the rules and procedures governing implementing partners.

85. **UNHCR agreed with the Board's recommendations, stating that it views monitoring of project implementation as a key activity in safeguarding resources, ensuring quality responses to persons of concern and jointly identifying with partners opportunities for capacity development.** UNHCR noted that an effective monitoring approach requires: (a) that the types and frequency of monitoring activities be tailored to the risk entailed by the environment, partner and project; (b) verification of financial accounts, as well as the quality of performance, delivery of the expected results and efficient use of resources; and (c) monitoring activities that are closely linked to other management activities, such as the selection of partners for the implementation of projects and auditing of the implementing partners. The Board concurs with these views and in its future audits will continue to follow up the progress made by UNHCR.

Audit certification

86. The Board has recommended previously that UNHCR review and reconcile management letters issued by the independent auditors against the financial monitoring reports of implementing partners, taking follow-up action where appropriate. In response, UNHCR has instituted a thorough review of audit and financial monitoring reports. It has also, as part of its review of the implementing partner management framework, commissioned an external review of the audit process, which includes definition of (a) the risk criteria to determine which implementing partners should be audited, (b) the scope of the independent audit review and (c) the frequency of the audit. The Board considers that this previous recommendation remains under implementation and will revisit this area when UNHCR concludes its work in that regard.

87. In the meantime, UNHCR has continued with its existing framework which requires that all project agreements exceeding $100,000 with national organizations and $300,000 with international organizations require an independent audit, as set out in its existing guidelines. The UNHCR guidelines also set out the detailed requirements for the auditor, covering the general principles for the audit, the qualifications and experience required of the auditor and the composition of the audit team. For the 2011 audit cycle, the Board noted that, by the end of May 2012, UNHCR had received 760 audit certificates covering 85 per cent of the expected audit certificates and 77 per cent of expenditure by partners in 2011. An analysis carried out by UNHCR of the audit reports revealed that 43 projects had qualified opinions with a total financial impact of $1.3 million. The Board reviewed 12 qualified audit reports covering a total of $1.2 million and was satisfied that the UNHCR analysis of the audit reports was robust. Given the likely level of error in the remaining modified opinions, the Board concluded that the total of all errors was immaterial.

88. From its assessment of (a) audit certificates, (b) testing and results of the controls that UNHCR uses in its verification of the financial monitoring reports of

partners, (c) testing of the records of implementing partners supplied to the Board by UNHCR from a sample drawn from the whole population, and (d) field office visits, including visits to implementing partners, the Board has sufficient assurance that expenditure through implementing partners is fairly presented in the UNHCR financial statements for the financial period ended 31 December 2011.

8. Implementation of the International Public Sector Accounting Standards

Project governance

89. UNHCR is adopting IPSAS from 1 January 2012. In July 2010, it established an IPSAS implementation team, managed by a full-time project manager, to coordinate the work already under way to develop accounting policies, procedures and systems. During 2011, the team, working closely with the Board, made progress regarding (a) the development of pro forma financial statements, (b) the analysis, validation and collection of data required for IPSAS reporting, (c) the account structure and (d) staff training, and liaised with the Board on IPSAS issues. Project governance functions at various operational levels, with active leadership from the Controller and the engagement of the High Commissioner.

90. UNHCR has an IPSAS project risk register which, in the Board's view, identifies the key issues that affect project outcomes. These issues and appropriate mitigations are discussed at the monthly meetings of the internal IPSAS Steering Committee and ownership is assigned to the relevant operational areas for ongoing management.

91. The Board found good progress insofar as agreement on:

- Accounting policies
- Pro formas for financial reporting
- Consideration of opening balances
- Planned dry runs for key processes during 2012
- Capitalization thresholds
- Data cleansing in relation to property, plant and equipment and capital assets.

92. While UNHCR plans for implementing IPSAS are well developed, the Board highlights below a small number of issues requiring further attention as implementation of the international standards approaches.

Monitoring of year-end expenditure of implementing partners

93. Approximately one third of expenditure by UNHCR is incurred through its partner agreements. Most agreements are conterminous with the UNHCR annual reporting period, but some are extended by mutual consent to allow for a longer liquidation period of up to three months following the end of the financial year. Where the liquidation period for a project has been significantly extended into the following year, advances paid to partners may not represent valid expenditure for the year under IPSAS. With the implementation of IPSAS, UNHCR is aware of the need to review its current partner reporting arrangements and consider whether they will remain appropriate.

Property, plant and equipment

94. Owing to continuing concerns that the UNHCR asset register is not reliable enough to support IPSAS financial statements, UNHCR is planning to invoke the transitional provision set out in IPSAS 17, which allows entities the option of not capitalizing their property, plant and equipment for up to five years after implementation. UNHCR has developed a plan to recognize assets based on the year of acquisition so that within five years all assets will be capitalized.

95. While this approach complies with the transitional arrangements of IPSAS, the Board considers that UNHCR has not fully explored the potential of implementing IPSAS without invoking the transitional provision. Most of the assets used by UNHCR are motor vehicles, furniture and information and communications technology equipment. Under UNHCR accounting policies, these assets have a useful economic life of less than five years and, with the enhancements to asset recording in the past year, UNHCR should be able to present fairly the value of its assets by concentrating verification efforts on these newer assets. The Board recognizes that there is a significant level of historical error within the asset register which may inhibit the ability of UNHCR to produce robust cost data for reporting in the supporting IPSAS disclosure note given the enhanced and precise reporting requirements of the international standards.

96. Concentrated effort on, for example, the 2,800 vehicle assets and 2,200 other assets with a residual value would assist UNHCR in obtaining a materially accurate opening balance for reporting in the statement of financial position. This will allow full compliance with IPSAS, and provide for the faster development of more meaningful financial reporting and enhanced asset control (important benefits from IPSAS), without recourse to transitional provisions.

97. **UNHCR agreed with the Board's recommendation that it continue to work to cleanse its asset register, focusing initially on those assets with a residual value.**

Capitalization of inventories

98. IPSAS 12 requires that UNHCR report the value of its inventories in the financial statements. As previously reported by the Board, the global system used to manage inventory items has not produced accurate valuations and teams from the Supply Management Service have visited warehouses with the highest value inventories and assets to validate the records. Discrepancies identified are being investigated to ensure that accurate information is used for reporting the opening inventory balance, which will be audited as part of the Board's examination of opening balances.

Realizing the benefits of the International Public Sector Accounting Standards

99. UNHCR is aware of the importance of realization of the benefits of IPSAS and, in response to the Board's previous recommendation, has developed key performance indicators to monitor data and the enforcement of procedures. While UNHCR has discussed the benefits of IPSAS with the Board and is communicating them to various stakeholders, a formal benefits realization plan has not been developed. Some early benefits, however, are already being realized; for example, the global inventory management system has been verified for accuracy and

obsolete assets have been identified and disposed of, thereby reducing storage costs and providing global oversight of the inventory on hand. UNHCR is as yet unable to quantify these early benefits.

100. **The Board reiterates its previous recommendation that UNHCR clearly identify the objectives and envisaged benefits of the IPSAS project and develop a methodology to formally track and manage benefits realization.**

101. UNHCR agreed with the Board's recommendation, noting that it has identified the benefits that IPSAS brings to management and is actively communicating the envisaged benefits to its staff and the various stakeholders. A formal benefits realization methodology is being developed and will be presented to the IPSAS Steering Committee for endorsement during the third quarter of 2012.

9. Management of procurement

Background

102. In 2011, UNHCR spent some $539 million on goods and services, of which $247 million was procured centrally (45 per cent), through the Supply Management Service, and the rest locally. Annex II provides an overview of UNHCR procurement activity by type of supply, destination and vendor origin.

103. The selection by the Board of procurement for particular review in 2011 reflects both the critical importance of supply management to the services that UNHCR provides to displaced populations and the challenges that the organization has faced in enhancing its capacity and performance in this area. In response to a major external review commissioned from consultants in 2008, UNHCR is about halfway through the implementation of a 2011-2013 action plan designed to advance supply chain management towards world-class levels of excellence, emphasizing:

- Enhanced organizational commitment
- Efficient end-to-end delivery with re-engineered business processes
- Enhanced tools for information analysis and performance measurement
- Investment in training, career management and human resource disciplines.

Accountability for procurement

104. Accountability for procurement is dispersed across UNHCR. The Supply Management Service is the central focal point for planning and coordination in regard to matters of supply, reporting to senior management through the Director of the Division of Emergency, Security and Supply. The Service supports field supply units which carry out supply chain tasks in operational countries. These units are an integral part of operations, and their size varies, depending on the scale of operations. The Service provides technical support and advice about procured goods and services, maintains supply information and technology systems, provides training and sets up global framework agreements of commonly requisitioned goods, such as basic items for refugees. These are call-off contracts which can be used by country supply units but do not commit UNHCR to purchase specific quantities.

105. The Supply Management Service does not have line management authority over supply officers in the field or determine how supply work in countries should

be organized, staffed or overseen by country representatives. Supply units are accountable for planning procurement and distribution, proposing the requisition approach, local sourcing and vendor management where advantageous, and ensuring arrangements for the distribution and storage of supplies within the country for which they are responsible, from entry port or local storage to final destination. In some countries, supply staff are accountable to programme branches rather than senior country management. In principle, this heightens the risk that good supply practice may be subordinated to programme officer demands, without objective consideration of value for money, propriety or deliverability of supplies. The Supply Management Service has recommended that supply teams report directly to representatives or deputy representatives and, although this happens in some countries, it has not yet been consistently adopted.

106. **UNHCR agreed with the Board's recommendation that the supply function structure and the accountability lines recommended by the Supply Management Service, already applied in some countries, be applied consistently throughout the UNHCR network.**

107. UNHCR stated that it would strengthen the lines of accountability for supply staff in the field by establishing a process of joint objective-setting among field operations, local supply staff and the Supply Management Service, with regular feedback from the latter on the performance of supply officers.

Providing sufficient supply officers in the field

108. The external review carried out for UNHCR in 2008 identified very low staffing in the area of supply compared with analogous United Nations organizations or non-governmental organizations. At that time, UNHCR had some 210 supply staff for a total logistics budget of $600 million. UNHCR has since increased the number of posts to 314 (which is still at the lower end for analogous organizations), 57 of which remain vacant. Much of the expansion has taken place at the central Supply Management Service in Budapest, which has 50 posts, but the Service also funds some 45 national and international supply posts to boost capacity in 15 countries.

109. The Board found that designated supply officers are in place in 42 of the 126 countries from which UNHCR purchased goods in 2011; in the other 84 countries, supply responsibilities are met by other staff, typically administration officers. The Board noted that accredited supply staff are concentrated in the biggest operations. Therefore, countries in which there is at least one supply officer represent $450 million (83 per cent) of the $539 million total spent on supplies.

110. Despite the progress made in regard to staffing, the Board noted a shortage of experienced and qualified supply practitioners in assisted countries, particularly at the key management grades (Supply Officer and Senior Supply Officer). For example, management posts were vacant in both Kenya and the Sudan, respectively, the third and sixth largest field supply operations in 2010, leaving responsibilities to be met as far as possible by other colleagues working part-time along with their own full-time responsibilities.

111. The Board considers that staffing gaps and turnover will have contributed to some of the deficiencies that it identified, notably in Kenya. Overstretching can become particularly acute at the time of crises; for example the Board observed that

in 2011, UNHCR had responded to the Côte d'Ivoire displacements and the increasing numbers of displaced persons arriving at the Dadaab refugee camp in northern Kenya by calling on retired supply officers.

Providing for adequate professionalism, training and guidance

112. The Supply Management Service currently holds no data on how many of its staff hold relevant qualifications in procurement or supply management. Supply manager vacancies are filled almost entirely internally, by generalists with no formal supply qualifications. The Service has a role in determining which internal candidates have the most relevant experience but the availability of specialists is usually limited. As with other specialist areas, there is corporate pressure to fill vacancies in supply with staff between assignments, who are often generalists. External recruitment, even to senior posts in the Supply Management Service, is rare and requires demonstrating that there are no acceptable internal candidates. For example, although construction is one of the largest procurement categories for UNHCR, the Supply Management Service has no specialist expertise to offer support to the field.

113. The Board found that the range of training provided to supply staff is heavily focused on the processing of transactions. Officers in the Sudan transferring to supply from programme or administrative roles had received no conversion training other than courses taken on their own time or at their own expense. In Kenya, supply training had not been extended to local staff. In Thailand, staff performing supply functions had done basic training on UNHCR procurement rules, but only one held a recognized procurement qualification. Specialist training can drive improvement and extend the range of support and added value that supply teams can provide to operations beyond processing transactions. The Supply Management Service recognizes this and its action plan for 2013 includes the development of a training strategy; however, implementation of the strategy will require senior management support.

114. The Board considers that it is difficult for specialist functions to add full value to the business, let alone attain world-class excellence, without a sustained commitment to professionalization, including qualification through relevant professional institutes. UNHCR has informed the Board that it intends to assign priority to building competence in supply management in the coming years.

115. **The Board recommended that UNHCR: (a) assess the need for basic induction training in procurement or supply management across its cadre of supply officers, giving priority to officers in a management role; (b) establish the number and distribution of supply staff holding relevant and recognized professional procurement qualifications; and (c) consider the extent to which the number of supply staff should be increased by external recruitment or by requiring professional study and qualification linked to career progression to senior supply posts.**

116. UNHCR agreed with the Board's recommendation, stating that competency building for supply staff would be a priority for the coming years. Its action plans include the development of a knowledge or competency framework and of a training strategy. The development of an induction course for staff being newly assigned to supply posts is expected to be launched during 2012. The Supply Management

Service will also map supply staff worldwide against recognized supply qualifications in order to identify training gaps and additional requirements.

Management information for supply: strategic performance indicators

117. The Supply Management Service has developed five key performance indicators for supply (see table II.3). Not all are yet sufficiently robust for reporting to senior management owing to concerns over their relevance and interpretation.

Table II.3
Key performance indicators for supply

Indicator and purpose	*Level reported by UNHCR (percentage)*	*Measurement issues*	*Assessment by the Board of Auditors*
Delivery. To ensure that orders are delivered on time	40	In practice, the recording by supply teams of unrealistic due delivery dates and misstated receipt dates makes the level reported unreliable and probably seriously understated	The indicator is relevant but requires greatly improved data capture to be useful. If delivery recording on MSRP cannot be greatly improved, the Supply Management Service may have to use shipment tracking data instead
Worldwide emergency stockpile coverage. To ensure core relief items are available for 600,000 persons (250,000 in the case of tents)	50	The level reported is for the lowest of the 11 core relief items only (currently tents). The other 10 are at 100 per cent	The indicator is relevant and useful, although it captures only the global emergency stockpile without considering stocks held by UNHCR country operations or those in the delivery pipeline
Emergency delivery. To ensure that orders are delivered on time in emergency situations	..	Not yet well developed; currently tracks only the number of items supplied once an emergency is declared	Needs further work to be useful, and ideally put on a comparable basis with the non-emergency supply
Asset management. To ensure effective management of plant, property and equipment	Over 90	The proportion of assets without issues, mainly in terms of recording their status or movements	The indicator is relevant to improved control and recording of assets under IPSAS
Supply chain organization. To ensure an adequate and competent supply chain organization exists at headquarters and in the field	84.5	Shows the proportion of supply posts filled (257 of 304)	The indicator is relevant but does not fully meet the stated purpose because it does not show levels of competence, either directly or through proxies (e.g., the numbers of staff professionally qualified)

Source: Review by the Board of Auditors of UNHCR key performance indicators.
Note: Data are not validated by the Board, which notes serious measurement problems (see fourth column, Assessment by the Board of Auditors).

118. UNHCR has yet to finalize a corporate framework for performance measurement in procurement; and the UNHCR Supply Manual does not specify a framework for performance measurement at the country level. The Board also observed an absence of standing performance indicators in use at the country level.

119. The Board would have expected at least quarterly monitoring of such aspects as transaction costs and timescales, timely delivery to target, rates of requisition fulfilment, and incidence of waivers of competition. While the Supply Management Service has made a useful start on the development of relevant key performance indicators, the Board considers there are important limitations in current supply management performance indicators of UNHCR. Without frequent monitoring against meaningful indicators, UNHCR will find it difficult to identify whether, for example, it is incurring excessive costs in transportation methods, or is facing problems in having items ready for transport or is incurring delays in transit.

120. **UNHCR agreed with the Board's recommendation that it prioritize:**

(a) **Improved recording on its enterprise resource planning system (MSRP) by local supply teams or, if this is not achieved, reversion by the Supply Management Service to centralized shipment tracking in order to provide a viable delivery time measure;**

(b) **Comparability between the emergency and non-emergency delivery performance measures maintained by the Supply Management Service;**

(c) **Capturing aspects of professional competence within the staffing indicator maintained by the Supply Management Service;**

(d) **Cascading the corporate key performance indicators developed by the Supply Management Service to form a basis for country-level reporting on supply performance.**

Management information on stocks and order quantities

121. Good data on the level of stocks and existing orders are important to ensure that procurement decisions are appropriate in their scale and timing. Where such data are unavailable, or not used appropriately, procurement risks being premature or late or in the wrong quantity.

122. The Board found evidence of uncoordinated procurement by field offices due to lack of oversight or coordination at the country level. This was most acute in Kenya, where supply units in Dadaab, Kakuma or Nairobi were unaware of each other's transactions or indeed the transactions made by staff in other parts of their own office. UNHCR guidance outlines the need for the programme, finance and protection functions to involve country supply units before a procurement decision is made but this had not occurred routinely. In its sample of transactions, the Board noted examples of:

- Identical goods, such as printers, procured via different routes at different costs
- Similar or identical goods, such as soap, procured by different field offices weeks apart, when requirements could have been collated to reduce administrative costs and secure larger volume discounts

- Similar or identical goods, such as clothing, procured on multiple occasions from different suppliers.

123. The Board recognizes that operational pressures and staffing difficulties in Kenya have not been conducive to strong management oversight of supply activities. It notes, however, that the coordination of requirements among field offices has been challenging in other countries as well, such as the Sudan.

124. **UNHCR accepted the Board's recommendation that in the guidance issued by the Supply Management Service it reiterate the need for country-level supply officers to assess the scope for grouping orders, identifying the most beneficial routes of supply and, where appropriate, the development of national framework agreements.**

125. UNHCR stated that it plans to identify a core set of goods and services for which national framework agreements should be established.

Management of warehouse capacity

126. The Board found evidence of failure to monitor low stock levels and current orders, resulting in stock-outs in Kenya and unnecessarily urgent requests for procurement. In Dadaab in 2011, soap was not distributed for two months because stock levels had not been monitored, with consequences for refugee sanitation and health. In part this reflected problems of staffing and poor coordination attributable to the pressures of the Dadaab situation.

127. The Board noted the reverse in other countries, specifically the effects of large deliveries on limited warehouse capacity and on operations. For example, while staff in Thailand considered they had sufficient knowledge of the warehouse capacity available for consignments, specific information was not embedded in UNHCR information systems; this required ad hoc checks of warehouse lease documents for floor plans to determine whether shipments would fit.

128. A more serious example occurred in the Sudan where, in November 2011, UNHCR ordered a stockpile of shelter materials at a cost of some $754,000 for delivery by the end of 2011 or early in 2012. At the time of the auditors' visit in late January 2012, only a portion of the materials had been delivered to the Khartoum warehouse but severe overcrowding was already evident, with access routes to many emergency stocks and inventory items obstructed and no free capacity for additional deliveries.

129. The UNHCR central contracts committee had been advised that the Khartoum warehouse had sufficient space, but this was not the case. Although local staff contended that stocks might be moved promptly to local depots and displaced households, the Board considers that the assumption runs counter to actual experience in the intended recipient areas during the preceding months. No quantified estimates of the floor space required for the materials had been prepared to enable informed and timely decisions. Although the MSRP financial accounting and management system has some functionality for warehouse space management, the Board found no evidence that this or other tools were in use. While further deliveries were imminent in February 2012, no specific plans to secure additional warehousing space were evident and prior local experience in Khartoum suggests that its acquisition may not be straightforward.

130. The Board recommended that UNHCR investigate the potential to institute quantified analysis of warehouse requirements for all major non-food item and material deliveries that are in the pipeline in the MSRP financial management system.

131. The Board also recommended that UNHCR require supply staff to verify that there is access to sufficient warehouse capacity before ordering large quantities of goods.

132. UNHCR agreed with the Board's recommendations. It noted that it plans to review its warehouse locations with the aim of further optimizing the number of locations against operational requirements, and to strengthen the relevant guidance on evaluation of warehouse capacity in its revised Supply Manual.

Management of supplier performance

133. Good data on supplier performance allow an organization to (a) recognize and address current weaknesses in supplier performance, (b) help adequate suppliers to enhance their operations and (c) take evidence-based decisions in the selection of vendors. The Board reviewed the decision-making process behind the awarding of global framework agreements for eight types of goods and one type of service. The stated policy of UNHCR is to award two-year agreements with an option to extend for a third year. In all of the cases reviewed, the current contract had indeed been awarded within the past three years following competitive tendering but consideration of supplier performance was very limited, usually consisting of a statement that a supplier was either good or bad or, in some cases, simply based on the fact that the supplier had worked with UNHCR for a certain number of years.

134. The Board found a lack of underpinning management information quantifying, for example, the percentage of orders delivered on time or whether the goods or services were of acceptable quality. The Supply Management Service confirmed that consideration of the past performance of the supplier may be drawn, as necessary, from the relevant buyer's perceptions of the supplier. The Board considers this approach to be deficient because:

- It leaves major decisions reliant on individual buyer impressions, which are difficult to verify, and there is added exposure to the risk of collusion or fraud
- Staff turnover will erode relevant business knowledge
- Key data on trends or variations in supplier performance will be left unobserved and unaddressed.

135. The Supply Management Service maintains a spreadsheet to track the progress of the global framework agreement shipments under way and identify cases in which there is need to address delay with suppliers or freight forwarders. The spreadsheet is detailed, tracking numerous stages in the progress of an order, from initiation to arrival, and contained potentially very powerful data. In common with other UNHCR systems, however, tracking is designed to control individual transactions and does not provide summarized management information, such as statistics comparing the performance of various suppliers and freight forwarders in terms of timeliness, completeness, documentation or quality of consignment. It also does not track trends in performance, or between UNHCR operations.

136. Until 2010, the Supply Management Service did not systematically record in MSRP data on timeliness of delivery by the supplier. The Board understands that the Business Analysis Unit of the Service is currently enhancing MSRP to enable the creation of summary statistics from these data.

137. In regard to quality, the Supply Management Service has a framework agreement with an inspection company which examines core relief items prior to shipping, but the results of the inspection reports are not collated in an accessible format and are therefore difficult to use when considering the letting of agreements. In addition, the Service does not currently collate systematic feedback on how goods perform under field conditions. The Board understands that the Service plans to create a central database of supplier performance and introduce systematic field surveys on the quality of goods received. Without such information, there is increased risk that poor-quality or short-lasting goods could be repeatedly distributed. UNHCR recognizes the need for systems which generate robust and quantified data that will inform objective decision-making in relation to supplier management.

138. **The Board recommends that the UNHCR Supply Management Service: (a) implement its plans to create reliable supplier performance information as quickly as possible; and (b) systematically use this information to manage supplier performance and contracts and make evidence-based decisions in awarding framework agreements.**

139. UNHCR agreed with the Board's recommendation, stating that it has included the collation of information on supplier performance in its objectives for 2012. It intends to evaluate good practice at other United Nations entities through engagement with relevant working groups of the High-level Committee on Management of CEB.

Information on local supplier performance

140. At the country level, the Board identified an absence of structured information on supplier performance, either for local suppliers or in terms of feedback to the Supply Management Service on the performance of suppliers under global framework agreements. Structured information would summarize performance on delivery times, the completeness and quality of consignments and of documentation, and provide an informed basis for taking decisions on continued use of particular suppliers. In the absence of such information, contract awards tend to be informed by historic performance only if individual supply officers recall and highlight specific events. This extends opportunities for corruption, for example, the concealment of incidents of underperformance. In addition, supply staff can be rotated frequently, thereby creating the risk of important information being overlooked.

141. At UNHCR operations in Kenya and Thailand, the auditors noted no documented consideration of past supplier performance but reliance on staff recollection of the strengths and weaknesses of the suppliers they worked with. Similarly, in the Sudan, the auditors found no documented evidence of structured data on historic performance leading to change of supplier, the nearest example being a retendering of the pharmacy contract due to refugee complaints.

142. UNHCR agreed with the Board's recommendation that it avoid duplicated and divergent efforts by different country offices by: (a) defining the information to be collated and retained for tracking supplier performance in terms of the timeliness, quality and completeness of consignment delivery; and (b) developing an easy-to-use template for supply units to capture such data consistently.

Managing risk and uncertainty: dependence on key suppliers

143. Any organization facing the need to respond to rapid-onset emergencies through the quick delivery of relief supplies is acutely exposed to risks of late or non-performance by its suppliers. A key element of risk mitigation is to ensure that alternative suppliers are in place to provide timely backup should a lead supplier prove unable to fulfil an order.

144. The Board noted that, in late 2009, UNHCR had let two global framework agreements for family tents to suppliers in the same country, each selection being made primarily on grounds of price, production capacity and item quality. Following the occurrence of a natural disaster in that country in 2011, the national authorities restricted exports of tents. This posed a serious risk to the ability of UNHCR to respond to major displacements, such as the worsening situation in Somalia. The Supply Management Service informed the auditors that it had worked with its suppliers to access manufacturing capacity in China, which had proven successful. The Board noted, however, that the recommendation made to the UNHCR Committee on Contracts in 2009 had not referred to the strategic risk of sourcing tents from a single country, and that this aspect had not been discussed in the Committee's minutes. The Board finds this particularly questionable, given that the Government had previously banned exports of tents following an earlier disaster in the country in 2005. The supply of tents entails long lead times, and tents remain the weakest line in UNHCR emergency stockpiles (see table II.3).

145. The Board found evidence of growing awareness of strategic risk in the framework agreements negotiated by the Supply Management Service. In July 2011, UNHCR began to diversify its arrangements for global logistics from one supplier to four. UNHCR has also accepted and implemented the Board's recommendation that it expressly report to its Contracts Committee on the strategic risks of dependence on particular suppliers and supply locations when recommending global framework agreements, and how such risks are to be mitigated.

Managing risk at the country level

146. The Board noted two major procurement cases in which risk and uncertainty in country supply could have been much better managed, with benefits to operations as well as efficient use of resources. Each case demonstrated tendencies to assume that the supply chain would function smoothly rather than to plan and prepare in advance for realistic contingencies, taking into account country knowledge. In the case mentioned above, the procurement of shelter materials led to stockpiles exceeding warehousing capacity. Failures in the supply of medical items for eastern Sudan led to stock-outs of essential items and recourse to suboptimal local procurement at high prices and with low assurance of quality.

147. Medical supplies constitute a special category with additional requirements and risks. The supply chain needs to be integrated with pharmaceutical services, and

special arrangements made for temperature-controlled transport and storage, quality assurance, customs clearance and testing. For such reasons, responsibility for medical supply to displaced persons is often discharged by United Nations agencies with particular expertise, such as with the United Nations Children's Fund in Darfur, Sudan.

148. The key difficulty in 2011 was that the actual supply lead time for medical items was up to 10 months, far longer than the 4- to 5-month planning assumption made by the UNHCR office in Kassala, eastern Sudan, resulting in camp stock-outs in the second half of 2011 across most main drug categories. The Board noted that the late delivery by the supplier of some consignments contributed to delay but was a secondary factor behind the general underestimation of other factors, such as obtaining clearances and testing. The Board considers that the issues identified at UNHCR country operations in the Sudan are relevant to operations in other country offices.

149. **UNHCR agreed with the Board's recommendation that it emphasize in its guidance to supply officers the underlying planning principle that the collective uncertainties in regard to tendering, supplier performance, logistics, scope for government intervention and involvement by multiple partners will tend to extend practical lead times for medical supplies well beyond theoretical durations. In some cases, this will demand earlier requisitioning.**

150. **The Board recommends that UNHCR require its country operations, as part of annual work planning, to assess whether they have the necessary expertise and are of sufficient scale to act as the procurer of medical supplies, and whether an alternative agency is better placed to procure such specialist items.**

151. In response, UNHCR agreed that the procurement of medical supplies is not one of its core activities. It therefore plans to explore the extent to which it is possible to source medical supplies through other United Nations agencies. Where UNHCR has to procure medical supplies in exceptional situations, it will continue to consult with expert agencies through its own health specialists.

Contracting for key services at the country level

152. At the country office level, the Board found variable practice in the market testing of services such as property rental, communications, travel agent and security. For example, at UNHCR country operations in Thailand, contracts for mobile telephone services had not been market tested since they were let in 1999 and 1997. The auditors found a similar situation to exist in the Sudan.

153. Market testing enables better-informed and transparent decision-making and provides flexibility in regard to reassessing the level and method of service provision. It is particularly important in areas such as communications, where increased competition and technological advances have driven down market prices. The general requirement to market test is reflected in the UNHCR rules and regulations but in practice existing arrangements for key services have too often been rolled over year after year without periodic market testing.

154. Market testing should not be limited to retendering existing contracts. The Board notes that, in the Sudan, UNHCR intends to outsource its in-house security force having observed substantial improvements in value for money for other

agencies in the country. The management of the Supply Management Service has informed the Board of its plans, following the relocation of the necessary staff to Budapest, to record the expiry dates of local service contracts worldwide and ensure that appropriate tendering is initiated. The Board welcomes the Service's plans for stronger central overview of service contracting.

155. **UNHCR agreed with the Board's recommendation that it amend its Supply Manual to require country supply teams to regularly market test key locally procured services according to specific cycles.**

Contracting for key services at the global level

156. Local staff require specialist assistance and knowledge to procure key services on the best terms. The Board examined the wider corporate context for the procurement of services, including the provision of relevant global framework agreements or template specifications to assist local procurement.

157. The services unit at the Supply Management Service in Budapest, established in mid-2010, has initially focused on letting the major services that support operations, for example, global agreements for freight forwarding, warehousing and quality inspection of relief supplies. Other framework agreements have addressed back-office priorities, such as translation services and software for online training. The Board noted that the Supply Management Service had not articulated a clear strategy for contracting for other services into the future. While it had indicated possible services for coverage in 2012, this decision was not based on systematic analysis of opportunities or embodied in a documented strategy presented to and agreed by senior management.

158. **The Board recommends that UNHCR develop a clear strategy for extending the range of support to the field for the procurement of key services based on:**

(a) **Analysis of the extent of expenditure on services such as security, telephony, fuel supply or vehicle maintenance across the country network;**

(b) **Analysis of the extent to which global suppliers have a market presence in key UNHCR locations, and expert advice on the extent of savings that could be achieved from more consistent contracting and the consolidation of global buying power;**

(c) **Feedback from supply officers in the field on priorities for the establishment of global framework agreements.**

159. UNHCR largely agreed with the Board's recommendation, but stated that a grouping of orders is often not feasible or practical. For fuel supply and vehicle maintenance, UNHCR will explore the possibility of combined sourcing as part of its fleet management project. The Supply Management Service will also seek input from supply officers in the field to determine priorities for global framework agreements. The Board reiterates its position that UNHCR should seek all opportunities for combined purchasing and scale economies in common services, such as security and communications.

160. **The Board recommends that the strategy for contracting services incorporate: (a) clear prioritization as to which services will be examined and tested in each year from 2012 to 2015; and (b) approval from the Contracts**

Committee of the choices made, and the commitment of in-house and consultancy resources to developing and letting frameworks.

161. UNHCR agreed with this recommendation but stated that it is currently focusing on vehicle procurement which promises the most significant savings potential and ties up considerable resources. Once this is implemented, other groups of services or goods will be considered.

162. It is unlikely that global framework agreements will be applicable in all UNHCR country operations for all generic services, and for all services in general. Such services require a degree of technical knowledge to specify them for necessary quality.

163. **UNHCR agreed with the Board's recommendation that, where global framework agreements are not found to be feasible, it consider the production of generic service specifications for adaptation by local supply officers on a country-by-country basis.**

164. UNHCR noted that it participates in a working group with other United Nations agencies to develop standard requirements for common services. On this basis, UNHCR will define standard terms of reference for key services and share them with country operations.

D. Internal audit arrangements

165. In response to the request of the General Assembly in its resolution 66/232 A, the Advisory Committee on Administrative and Budgetary Questions, in a letter dated 24 January 2012, requested the Board to report on the internal audit arrangements of UNHCR, in line with paragraph 1 (d) of the annex to the Financial Regulations and Rules of the United Nations.

Background

166. The mandate of OIOS to conduct internal audits at UNHCR derives from financial regulation 5.15. Details of the arrangements are set out in a memorandum of understanding and letter of agreement. The approved budget of UNHCR for 2011 was $4.2 million, which provided for 17 Professional and 5 General Service posts in Geneva and Nairobi and resident auditors for four UNHCR operations. A separate memorandum of understanding covers arrangements for the provision by OIOS of investigation services. In the conduct of its internal audit work, OIOS is independent of executive management and has a direct reporting line to the High Commissioner, the Secretary-General and the General Assembly.

167. In 2012, UNHCR concluded that the existing arrangement with OIOS did not provide the full benefit of the resources employed for internal audit. The reasons for its conclusion included persistent high vacancy rates among auditor positions and inadequate provision of advisory services. In order to strengthen the current arrangements, the High Commissioner has requested the UNHCR Inspector General to look into the options for an in-house internal audit function and to submit proposals in that regard.

Existing oversight structures

168. There are various components to the oversight arrangements at UNHCR, including internal audit, inspection, evaluation, the Ethics Office and the Ombudsman. The roles and responsibilities of each executive function are set out in their respective terms of reference, whereas the General Assembly, through the Financial Regulations of the United Nations, provides the mandate for the provision by OIOS of internal audit services.

Current internal audit arrangements

169. As part of its examination of the internal audit arrangements, the Board reviewed a sample of the assignments carried out by OIOS at UNHCR during 2010 and 2011. The Board examined the professional and technical standards followed by the internal auditors, including the scope of their work, the audit planning approach, reporting procedures and arrangements for ensuring the competence and continued professional training of OIOS staff.

Internal audit resource

170. In 2011, OIOS operated with, on average, six vacancies in a complement of 18 Professional staff (a vacancy rate of 32.4 per cent), a small improvement compared with the 46.3 per cent vacancy rate reported in 2010. OIOS has subsequently informed the Board that only two Professional posts were vacant as at 30 June 2012: one relates to a position in Syria which is frozen until the current security situation is resolved and recruitment action to fill the second vacancy is nearing completion.

171. Fourteen staff held internationally recognized qualifications in accounting or internal audit and five of them held additional specialist qualifications, for example, in information systems audit. All staff had performed most of the mandatory United Nations training (e.g., in field security and ethics), 11 had received formal training in the use of the OIOS audit documentation system and 10 staff had received IPSAS training. While the Board considers OIOS staff to be appropriately qualified, it noted that there was no formal training plan identifying the development and training needs of the staff. OIOS reported that specific training tailored to individual needs was under development.

Review of internal audit files

172. To assess the quality of the internal audit work performed at UNHCR, the Board reviewed documentation supporting five audits carried out during the period from November 2010 to February 2012. The Board found documented working files for each audit assignment which, inter alia, recorded the objectives and scope of the audit as well as the results and evaluation of the audit testing performed. OIOS methodologies provide a structured approach for the audit teams to follow and enable supervisors and managers to review the adequacy and standard of work. The Board did, however, identify scope to improve the links between the testing planned and the testing actually performed, and to enhance the documentation supporting conclusions on all of the work performed rather than simply documenting findings on an exception basis.

173. During the period under review, OIOS changed its reporting process to measure the conclusion of each assignment against four key control objectives.

However, as this occurred part way through some assignments, the change in methodology was not, in some cases, reflected in all of the underlying audit working papers. OIOS has informed the Board that the new processes are now fully embedded and that all assignments now routinely include detailed working papers which, for each control objective, fully support the conclusions reached.

Quality assurance

174. In August 2011, the Institute of Internal Auditors performed an external quality review of the OIOS internal audit of the United Nations and concluded that OIOS had partially conformed with the International Professional Practices Framework. Partial conformity is defined as making good-faith efforts to comply with the requirements but falling short of achieving some major objectives. The review identified some positive attributes within OIOS, including the disposition at the top to enhance the processes, and made nine recommendations. The recommendations covered assignment planning, the need to analyse and adjust procedures with a view to eliminating the causes of the excessive duration of audits, and the institution of a training and development strategy for audit staff.

175. OIOS has informed the Board that it has taken significant steps to address the recommendations made by the Institute of Internal Auditors and has reported the action taken to the Independent Audit Advisory Committee. Steps taken include:

- Continuing action to fill vacant posts
- A survey to identify the key competencies required of internal auditors in the United Nations system and the competencies already in existence among internal audit staff
- Improved classification of recommendations to both help management understand the most critical issues and enhance monitoring of the progress made in implementation.

Scope (planning, reporting and findings)

176. UNHCR is still in the process of developing a risk management system and, in its absence, OIOS has developed its own assessment of the main risks facing the organization and the controlling activities that mitigate them. In its planning cycle, OIOS measures the main oversight findings against the key controls and develops, in consultation with UNHCR, a proposal for the annual internal audit plan. The Board of Auditors and the Joint Inspection Unit are also consulted as part of this planning process. Once agreement is reached, the annual internal audit plan is submitted to both the Under-Secretary-General for Internal Oversight Services and the United Nations High Commissioner for Refugees for approval.

177. In 2011, the internal audit workplan addressed to the High Commissioner contained 32 planned assignments. OIOS completed 25 of the audit assignments at an average cost of $150,000. Six planned assignments were cancelled, some at the request of UNHCR, and six were deferred. Five assignments were identified to replace the six cancelled assignments and one advisory review was conducted. The audit assignments deferred owing to staff vacancies were commenced in 2012.

178. The Board notes the level of underdelivery by OIOS of the workplan which did not therefore provide the High Commissioner with the level of internal audit coverage of operations originally planned for 2011.

179. OIOS had finalized only seven reports related to 2011 at the time of the Board's audit but has subsequently issued two more. In total, since 1 January 2010, OIOS has finalized 34 audit reports (one related to 2007, one to 2008, 10 to 2009, 15 to 2010 and 7 to 2011). Over this longer period, the Board found that draft reports were issued within an average 82 days of completing the exit conference for each assignment and final reports were issued within an average 184 days. The Board notes that OIOS aims to issue final reports within four months (120 days) of completing assignments and notes that, on average, the UNHCR audits do not meet this target performance level. Excluding the three reports which took longest to complete, the average elapsed time for issuing the draft and final reports was reduced to 64 days and 167 days, respectively.

180. The longest time taken to issue a draft report was 355 days, with the final report issued after some 603 days. The shortest time taken to issue a draft report was 20 days and the quickest time for issuing a final report was 112 days. OIOS has informed the Board that the reporting process was modified in 2011 to include an additional report clearance stage and that this had impacted on the total time taken to clear reports.

181. OIOS issues annual reports to the High Commissioner, covering the period 1 July to 30 June. The Board noted that this reporting period is not aligned with the audit planning cycle which follows a calendar year. In the Board's view, the transparency of reporting would be enhanced by directly matching the planning and reporting cycles. The annual report provides an overview of the results of the audits of main areas of risk, as well as comprehensive details on the status of recommendations made by OIOS. The Board noted that the annual report is not intended to provide the High Commissioner with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organization's framework of governance, risk management and control but considers that such an assurance statement would be valuable.

182. The Board notes that for internal audit services to be effective, there must be effective communication and engagement with senior management. In this regard, the Board notes from OIOS annual reports that there were no planned series of meetings between the OIOS Internal Audit Division and the UNHCR senior management group over the two-year period to July 2012. OIOS informed the Board that it considers the absence of such meetings to be detrimental to its working relationship with UNHCR as it restricts its ability to discuss matters of concern at an appropriately senior level within the organization.

Proposals for an in-house internal audit function

183. In mid-2011, the High Commissioner was approached to endorse proposals to establish an in-house internal audit unit. UNHCR intends to present firm proposals to its Executive Committee and the Advisory Committee on Administrative and Budgetary Questions in September 2012 on the basis of a core group of staff in Geneva, supported by outposted staff whose locations would be determined by an assessment of costs and benefits to be completed by the end of June 2012. UNHCR

expects to have selected appropriate professionals by March 2013 and to have them assume their responsibilities from July 2013.

184. While the existing internal audit arrangements require strengthening and improving, the Board considers that OIOS provides a sound professional framework for performing the internal audit work even though it costs some $4 million per year and scope for improvement has been identified in the current procedures. In particular, OIOS provides a cadre of qualified professionals, supported by appropriate audit methodology, systems and support mechanisms, and exercises a high degree of operational independence in view of the mandate provided by the General Assembly. Although the current arrangements and working relationship between OIOS and UNHCR senior management clearly require improvement, UNHCR needs to ensure that the strengths of the current arrangements are preserved should it bring the internal audit service in-house.

185. At the time of reporting, UNHCR has not performed a detailed appraisal of options for addressing the identified weaknesses in the current arrangements. There has been no formal consideration of alternatives to the option of an in-house internal audit function, such as (a) renegotiating the existing arrangements with OIOS with a view to their improvement and strengthening, (b) using a private sector audit firm to provide internal audit services or (c) developing partnering arrangements with other agencies. There is currently no financial business case to support the proposed changes and there has been little analysis of the detailed internal audit requirements for UNHCR.

186. Establishing an in-house internal audit unit would require considerable central support, such as the development and maintenance of an audit methodology and audit manual, maintenance of professional standards and training, career development for audit professionals, technical support and the procurement of information and technology systems and audit documentation software. It is unclear whether UNHCR currently has the capacity and the appropriately qualified and skilled staff to manage such a specialized unit.

187. **UNHCR agreed with the Board's recommendation that: (a) it perform a comprehensive appraisal of the provision of internal audit services, examining the costs and benefits of a range of possible options for addressing the weaknesses identified; and (b) on determining the preferred response, it develop a full business case and timetable for the implementation of revised arrangements that preserve the strengths of the current arrangement and ensure the continuation of internal audit activity through any transitional period.**

188. UNHCR informed the Board that it intends to commission an independent assessment of options for the provision of internal audit services.

Independent audit and oversight committee

189. In July 2011, the UNHCR Standing Committee agreed to the terms of reference for the Independent Audit and Oversight Committee. The High Commissioner initiated the recruitment of five external members and the Committee's first meeting was planned for the second quarter of 2012. The Board supports, and has previously advised UNHCR on, the development of the Committee and will consider its effectiveness in future reports.

E. Disclosures by management

1. Write-off of losses of cash, receivables and property

190. UNHCR informed the Board that it had formally written off liquid assets of $12.9 million (compared with $5.9 million in 2010). This balance included $5.8 million in unpaid donor contributions, $2.3 million in aged balances with implementing partners and $900,000 relating to irrecoverable value added tax, as disclosed in note 6 to the financial statements, and is considered in more detail in section C.3 above.

2. Ex gratia payments

191. UNHCR informed the Board that the High Commissioner had made no ex gratia payments during 2011 (2010: $15,249). This corresponds with the Board's review of UNHCR financial and management records which identified no such payments during the 2011 financial year.

3. Cases of fraud and presumptive fraud

192. UNHCR has reported three cases of proven financial fraud during 2011, resulting in financial losses to UNHCR of $67,000 (2010: two cases accounting for losses of $35,000). The cases involve:

- Misappropriation of UNHCR fuel
- A fraudulent medical insurance claim
- Misuse of UNHCR funds by a staff member who had access to banking and financial data and processed fraudulent transactions, facilitated by knowledge of his technical supervisor's accounting system password.

193. The Inspector General's Office has investigated all three cases. Two investigations are ongoing and, in respect of the third, the Office has issued a management implication report and recommended that interim measures be taken. The recommendations have been accepted by the country representative, with improved measures over management review and information technology security being implemented. The case is also to be reported to the national authorities through the Office of Legal Affairs at United Nations Headquarters. UNHCR has not yet assessed whether any of these cases indicate weaknesses in its controls.

194. A further 16 cases were referred to the Inspector General's Office during 2011 but, while they have not yet been investigated, the circumstances would not give rise to material losses to UNHCR.

F. Acknowledgement

195. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the High Commissioner, the Deputy and Assistant High Commissioners and the Controller, and members of their staff.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa

30 June 2012

Annex I

Analysis of the status of implementation of the recommendations of the Board for the year ended 31 December 2010

Summary of recommendation	*Paragraph reference (A/66/5/Add.5, chap. II)*	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
Continue its efforts to reduce the number of staff between assignments and not on temporary duty	18	2007		X		
Establish a detailed process for the year-end preparation of financial statements, encompassing the cleansing of accounting records, preparation of supporting schedules and an evidence-based management review	29	2009	X			
Examine and address the reasons for deficiencies in country office financial management and reporting capacity	33	2010		X		
Enhance monthly financial closure processes to include, for example, documented review of income and expenditure against budgets and sign-off by the relevant official responsible of the components of the trial balance for which they are responsible	34	2010			X	
Fully align disclosures regarding end-of-service liabilities with the relevant IPSAS standard for 2011 and set up specific funding for end-of-service and post-retirement liabilities	39	2007	X			
Develop robust and documented quality control procedures to validate the integrity of the data supplied to actuaries concerning staff end-of-service liabilities	40	2010		X		
Centralize banking arrangements at headquarters in order to gain maximum leverage from bankers and subject all bank accounts to regular and critical challenge, closing any unnecessary accounts immediately	44	2010		X		
Conduct exhaustive bank reconciliations and reconcile all differences with the general ledger, and reperform a sample of bank reconciliations	49	2009		X		
Revise the policy on monthly bank reconciliations, drawing on international best practice	50	2010	X			
Intensify efforts to cleanse the data supporting non-expendable valuations and enhance the guidance and information on asset management provided to country offices	56	2010		X		
Refine and enhance current stocktaking procedures in the light of lessons learned in 2010	62	2010	X			

Summary of recommendation	*Paragraph reference (A/66/5/Add.5, chap. II)*	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
Regularly review all inventory items for obsolescence and damage and write down the values accordingly	63	2010		X		
Intensify the frequency and depth of managerial review of progress in the implementation of IPSAS	69	2010		X		
Review and cleanse accounting records and enhance month-end closure procedures	73	2010		X		
Establish a clear path for a dry run of IPSAS accounts with real accounting data	78	2010	X			
Establish a clear plan for the creation of opening balances	81	2010	X			
Clearly identify the objectives and envisaged benefits of the IPSAS project and develop a methodology to track and manage benefit realization	85	2010		X		
Enhance the organization-wide change management programme for IPSAS	88	2010		X		
Streamline the performance measurement to focus on mission-critical activities in a more comprehensive way	92	2010		X		
Develop comparative and cost-based information to improve the evidence base for allocation decisions and provide a stronger link to enforce accountability	99	2010		X		
Develop a summarized scorecard to enhance senior management review of performance and risks at the country and corporate levels	100	2010		X		
Re-establish and entrench the principles laid down in guidance by establishing at the country level a policy clearly specifying the circumstances in which country operations should normally commission programme and project evaluations, and requiring explicit planning and budgeting for evaluation during the project	104	2010		X		
As a matter of urgency, establish a simple organization-wide risk management approach, building on existing reporting arrangements	107	2010			X	
Review the various approaches to project tracking in order to identify best practice with wider applicability and assess compatibility with the corporate information technology strategy	114	2010			X	
Adopt a risk-based approach to managing partners	117	2010		X		
Impose mandatory requirements on its country operations to consistently: (a) document their justification for partner selection; (b) formally assess the market for alternative partners at regular intervals; and (c) consider the alternative	124	2010		X		

Summary of recommendation	*Paragraph reference (A/66/5/Add.5, chap. II)*	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
of commercial procurement whenever seeking a market-traded service						
Broaden the range of indicators used in partner agreements and subject performance frameworks to management authorization before agreements are signed	127	2010		X		
Establish common checklists for use by officers in the field when undertaking implementing partner verification and monitoring visits	133	2010			X	
Review and reconcile management letters issued by independent auditors against implementing partner financial monitoring reports	138	2010		X		
Establish a single senior point of ownership for protracted refugee situations	145	2010	X			
Make it an explicit requirement that a comparative assessment against a "do-minimum" or "no change" base option be included in each of the action plans it produces for internal and donor consideration on tackling protracted refugee situations	150	2010		X		
Guidance for country offices on designing durable solutions be supplemented with concise checklists	154	2010		X		
Work with UNDP to finalize a memorandum of understanding as soon as possible to provide greater certainty for country offices on how to identify and progress joint working opportunities on durable solutions	158	2010	X			
Total			**8**	**21**	**4**	**0**
Percentage share of total			**24**	**64**	**12**	**0**

Annex II

Overview of the procurement activity of the Office of the United Nations High Commissioner for Refugees

A. Top 20 categories of items supplied[a]

Category	Value (millions of US dollars)	Cumulative percentage of total	Rank	
			2011	2009
Business and administrative services	45.8	9	1	1
Tent, camp and outdoor equipment[b]	45.0	17	2	3
Charters	31.5	23	3	14
Transport support	28.3	28	4	7
Diesel	25.5	33	5	5
Computer services	25.3	37	6	9
Maintenance and construction services	23.0	42	7	2
Security and safety services	22.9	46	8	13
Advertising and information services	17.4	49	9	16
Terrain vehicles	15.7	52	10	11
Civil affairs services	14.4	55	11	20
Computers	13.9	57	12	17
Telecommunication services	13.7	60	12	12
Blankets[b]	12.3	62	14	5
Prepared and preserved food	10.4	64	15	33
Bedclothes, mattresses and towels[b]	9.8	66	16	4
Plastic products (sheets and rolls)[b]	9.2	68	17	8
Cargo and passenger transport	7.9	69	18	22
Kitchenware[b]	7.6	70	19	10
Soap, cleaning and hygiene supplies	6.8	72	20	27
Total, all categories	**538.9**	**100**		

Source: Board analysis of UNHCR data.

[a] Categories of spend are relatively stable from year to year, although subject to some variability, reflecting the particular nature of the crises that occur. For example, increased use of charter flights and of prepared foods reflect care and evacuation of displaced migrant workers during the 2011 Libyan crisis. Maintenance and construction is down due to the ending of a major works programme undertaken in response to the floods in Pakistan. Advertising spending has risen with increased fundraising activity with private donors.

[b] UNHCR has defined a package of 11 core relief items, consisting of tents, blankets, cookware and other basic supplies. To react quickly to emergencies, UNHCR attempts to maintain a stockpile of these items large enough to provide for 600,000 beneficiaries.

B. Top 20 procurement destinations by value

(Millions of United States dollars)

Country of destination	*Value 2011*	*Cumulative percentage of total*	*Rank*	
			2011	*2009*
Switzerland[a]	64.3	12	1	7
Kenya	53.6	22	2	1
Sudan[b]	30.7	28	3	11
Afghanistan	30.5	33	4	5
United Arab Emirates[a]	27.4	38	5	7
Tunisia	26.6	43	6	[c]
Pakistan	24.8	48	7	1
Ethiopia[b]	23.2	52	8	15
Chad	20.1	56	9	6
Iran (Islamic Republic of)[b]	18.1	59	10	18
Liberia	13.7	62	11	[c]
Congo	13.3	64	12	8
Italy	12.5	67	13	[c]
Denmark[a]	12.2	69	14	19
Yemen	10.2	71	15	13
Iraq	9.1	72	16	12
Jordan	8.7	74	17	20
Egypt	8.4	76	18	[c]
United Republic of Tanzania	8.3	77	19	4
Hungary[a]	6.0	78	20	[c]
Total	**538.9**	**100**		

Source: Board analysis of UNHCR data.

[a] Supplies to Denmark, Hungary, Switzerland and the United Arab Emirates reflect in part the presence of major UNHCR facilities or strategic warehouses in those countries. Some services classified as delivered to Switzerland, such as communications systems, are in fact provided across the UNHCR global network.

[b] Rising expenditure in the Sudan reflects the demands of the South Sudan situation, in addition to the commitment to Darfur. Similarly, increased expenditure in Ethiopia reflects the worsening of displacement due to the situation in Somalia. The Islamic Republic of Iran has seen the start of a major refugee health initiative.

[c] Not applicable to 2009. Countries new to the top 20 in 2011 reflect mainly the new crises which occurred in that year, such as those in Tunisia and Côte d'Ivoire, and the need to upscale UNHCR operations in those countries and in neighbouring countries affected by displacements.

C. Top 20 vendor countries by value

(Millions of United States dollars)

Country	*Value*	*Cumulative percentage of total*	*Rank*	
			2011	*2009*
Denmark[a]	61.4	11	1	4
Switzerland[a]	40.8	19	2	2
Kenya	34.6	25	3	3
United Arab Emirates[a]	31.9	31	4	10
Pakistan[b]	26.4	36	5	1
Italy	23.4	41	6	11
Afghanistan	20.4	44	7	9
United States of America	18.8	48	8	17
Japan	18.5	51	9	8
Iran (Islamic Republic of)	18.0	55	10	20
India	17.9	58	11	6
United Kingdom of Great Britain and Northern Ireland	16.1	61	12	18
Chad	13.2	63	13	12
Sudan	13.0	66	14	15
Ethiopia	12.4	68	15	[c]
Belgium	9.8	70	16	[c]
Democratic Republic of the Congo	7.1	71	17	[c]
Tunisia	6.5	72	18	[c]
Jordan	6.2	74	19	14
Liberia	6.1	75	20	[c]
Total	**538.9**	**100**		

Source: Board analysis of UNHCR data.

[a] Supplies from Denmark, Switzerland and the United Arab Emirates reflect in part the presence of major UNHCR facilities or strategic warehouses in those countries and may not represent the original place of manufacture of goods supplied. Denmark is also the headquarters of major UNHCR suppliers for global shipping and for information technology and communications equipment. Similarly, vendor countries for goods and services, such as Kenya, to a degree reflect the presence of displaced populations in the country and may not represent the origin of manufactured goods.

[b] Pakistan is a major supply centre for basic relief items, such as tents.

[c] Not applicable to 2009. Countries new to the top 20 in 2011 in part reflect the crises occurring in neighbouring countries, although the amounts from countries ranked between 15 and 20 are relatively small and may represent few transactions.

Chapter III

Statement of the responsibilities of the High Commissioner and approval and certification of the financial statements

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the accounts of the voluntary funds, administered by the High Commissioner, which are submitted to the Executive Committee of the High Commissioner's Programme and to the General Assembly of the United Nations.

To fulfil this responsibility, the Office of the High Commissioner operates within prescribed accounting policies and standards and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the Board of Auditors, during their respective audits.

In this context, the financial statements contained in chapter V, comprising statements I to III, schedules 1 to 4 and the supporting notes, were prepared in accordance with the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.9) and the United Nations system accounting standards. In management's opinion, the financial statements present fairly the financial position of the Office of the United Nations High Commissioner for Refugees as at 31 December 2011, the results of its operations and the cash flows of individual programmes, funds and accounts for the year then ended.

The accounts are hereby:

Approved:
(*Signed*) António **Guterres**
United Nations High Commissioner for Refugees

Certified:
(*Signed*) Kumiko **Matsuura-Mueller**
Controller and Director
Division of Financial and Administrative Management

Chapter IV
Financial report for the year ended 31 December 2011

A. Introduction

1. The United Nations High Commissioner for Refugees has the honour to submit the financial report on the accounts of the voluntary funds administered by him for the year ended 31 December 2011. The financial results reported relate to the activities of the Office of the United Nations High Commissioner for Refugees (UNHCR).

2. The financial report consists of three statements, supported by schedules and notes, and provides financial information relating to the Annual Programme Fund, the Reintegration Projects Fund, the Internally Displaced Persons Projects Fund, the Junior Professional Officers Fund, the Staff Benefits Fund, the Medical Insurance Plan and the Working Capital and Guarantee Fund.

3. The present financial report is designed to be read in conjunction with the financial statements. It presents an overview of the consolidated results and an analysis of the financial statements by major category, highlighting trends and significant changes.

B. Overview

4. Statements I to III summarize the combined results of the activities of UNHCR. Statement I presents income and expenditure by fund category for the financial year 2011. Statement II shows a summary of assets, liabilities, reserves and fund balances as at 31 December 2011. Statement III summarizes the net cash flow of UNHCR for the year 2011.

5. The financial year 2011 is the last year for which the UNHCR accounts are presented under the United Nations system accounting standards. From 2012 onwards, the accounts will be presented under the International Public Sector Accounting Standards (IPSAS). In this respect, during 2011, UNHCR undertook significant effort to finalize IPSAS-compliant accounting policies and procedures and communicate them to the staff at large, supported by a change management strategy. Reconciliations of data and bank accounts, as well as valuation and recording of expendable and non-expendable properties, were also part of the efforts made in preparing for the implementation of IPSAS, effective 1 January 2012.

6. UNHCR continued to implement activities under its programme budget structure which is classified under four pillars: pillar 1, global refugee programme; pillar 2, global stateless programme; pillar 3, global reintegration projects; and pillar 4, global internally displaced persons projects.

7. Section C below provides financial highlights with respect to the annual budget. In accordance with the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.9), the annual budget comprises the Annual Programme Fund (pillars 1 and 2), the Reintegration Projects Fund (pillar 3), the Internally Displaced Persons Projects Fund (pillar 4), the United Nations Regular Budget Fund and the Junior Professional Officers Fund. Section D provides highlights in regard to financial matters other than the annual budget.

C. Financial highlights: annual budget

Total requirements, funds available and expenditure

8. With successive and simultaneous humanitarian emergencies in North Africa and the Middle East, in West Africa and in the Horn of Africa, 2011 has been a very challenging year for UNHCR, with the highest level of implementation (total expenditure) in its history, amounting to $2,181.1 million. This represents 90.4 per cent of the funds available (including prior-year adjustments and carry-over), amounting to $2,413.1 million.

9. With the exception of funding of $44 million from the United Nations assessed contributions appropriation (regular budget) and miscellaneous income, UNHCR operations are funded entirely from voluntary contributions.

10. The UNHCR budget for 2011 is based on a global needs assessment and provides a comprehensive statement of the resources required to address the needs of refugees and other persons of concern, taking into account the organization's delivery capacity. The budget is not based on income projection.

11. Against this background, the final global needs-based budget for 2011 amounted to $3,821.7 million against income of $2,140.5 million and funds available of $2,413.1 million, mentioned above. Funds available include voluntary contributions directly attributed to the pillars, other income, funds carried over from the prior year, adjustments made to prior-year expenditure and contributions and transfers between funds.

12. Table IV.1 shows the breakdown of total requirements, funds available and expenditure by pillar, with the United Nations Regular Budget Fund and the Junior Professional Officers Fund included in pillar 1. The difference between the final total requirements for 2011 (global needs-based budget) and the funds available, representing the unmet needs of persons of concern to UNHCR in 2011, amounted to $1,408.6 million.

Table IV.1
Total requirements, funds available and expenditure
(Millions of United States dollars)

	Pillar 1[a]	*Pillar 2*	*Pillar 3*	*Pillar 4*	*Total*
2011 total requirements (global needs-based budget)	**2 684.8**	**66.3**	**289.4**	**781.2**	**3 821.7**
Funds available (table IV.2)	1 869.1	33.5	121.4	389.1	2 413.1
Expenditure (table IV.3)	1 647.3	33.5	121.4	378.9	2 181.1
Carry-over	221.8	–	–	10.2	232.0
Expenditure on total requirements (percentage)	61	51	42	49	57
Expenditure on funds available (percentage)	88	100	100	97	90

[a] Pillar 1 is inclusive of the United Nations Regular Budget Fund, the Junior Professional Officers Fund, operational reserves and reserves for new or additional mandate-related activities.

Contributions

13. Of the total income of $2,140.5 million (excluding the Working Capital and Guarantee Fund and Medical Insurance Plan), $2,132.3 million consists of voluntary contributions of $2,088.3 million and a contribution from the United Nations Regular Budget Fund of $44 million. Total income increased by $228.8 million (or 12 per cent), compared with 2010 contributions of $1,903.5 million, an indication of significant donor support, notwithstanding the volatile global economic situation prevailing throughout the year.

14. Earmarked contributions are recorded to the applicable fund and pillar upon receipt. Unearmarked and broadly earmarked contributions are initially recorded in the Annual Programme Fund under pillar 1 (global refugee programme) and are subsequently transferred to other pillars as needed to cover budgetary requirements. During the year, $27.4 million was transferred to pillar 2 (global stateless programme), $78.3 million was transferred to pillar 3 (Reintegration Projects Fund) and $145.1 million to pillar 4 (Internally Displaced Persons Projects Fund).

Table IV.2
Availability of funds by source and pillar
(Millions of United States dollars)

	Pillar 1	*Pillar 2*	*Pillar 3*	*Pillar 4*	*Total*
Voluntary contributions	1 802.5	6.0	44.2	235.6	2 088.3
United Nations Regular Budget Fund contribution	44.0	–	–	–	44.0
Carry-over from 2010	220.1	–	–	14.2	234.3
Other income and adjustments	14.6	0.1	1.8	9.8	26.3
Transfers to cover administrative costs	18.5	–	(2.9)	(15.6)	–
Transfers from pillar 1 to cover budgets of other pillars	(250.8)	27.4	78.3	145.1	–
Transfers from other funds	20.2	–	–	–	20.2
Total funds available	**1 869.1**	**33.5**	**121.4**	**389.1**	**2 413.1**

Expenditure

15. Total expenditure for 2011 amounted to $2,181.1 million, compared with $1,878.1 million in 2010, an increase of $303.0 million (or 16.1 per cent). Table IV.3 shows the distribution of expenditure across the pillars for each goal. Figure I provides a graphic illustration of annual budget expenditure over the past five years and figure II, its distribution by pillar.

Table IV.3
Annual budget expenditure for 2011 by pillar and goal
(Millions of United States dollars)

Goal	*Pillar 1*	*Pillar 2*	*Pillar 3*	*Pillar 4*	*Total*	*Percentage*
Emergency response	116.8	–	–	95.5	212.3	9.7
Protection pending solutions	240.6	6.6	–	4.5	251.7	11.5
Protection and mixed solutions	589.6	11.7	4.9	183.1	789.3	36.2
Voluntary return	56.9	–	–	–	56.9	2.6
Reintegration	3.2	0.2	78.0	9.8	91.2	4.2
Local integration	6.0	1.0	11.3	–	18.3	0.8
Resettlement	1.2	–	–	–	1.2	0.1
Capacity-building	5.7	0.4	7.6	0.5	14.2	0.7
Advocacy for protection and solutions	45.5	11.2	–	0.8	57.5	2.6
Resource mobilization	4.8	–	–	–	4.8	0.2
UNHCR global management	380.2	–	–	–	380.2	17.4
Subtotal	**1 450.5**	**31.1**	**101.8**	**294.2**	**1 877.6**	**86.1**
Implementing partner balance to report	187.2	2.4	19.6	84.7	293.9	13.5
Subtotal	**1 637.7**	**33.5**	**121.4**	**378.9**	**2 171.5**	**99.6**
Junior Professional Officers	9.6	–	–	–	9.6	0.4
Total	**1 647.3**	**33.5**	**121.4**	**378.9**	**2 181.1**	**100.0**
Percentage of total expenditure	75.5%	1.5%	5.6%	17.4%	100.0%	

Figure I
Annual budget for 2011: expenditure

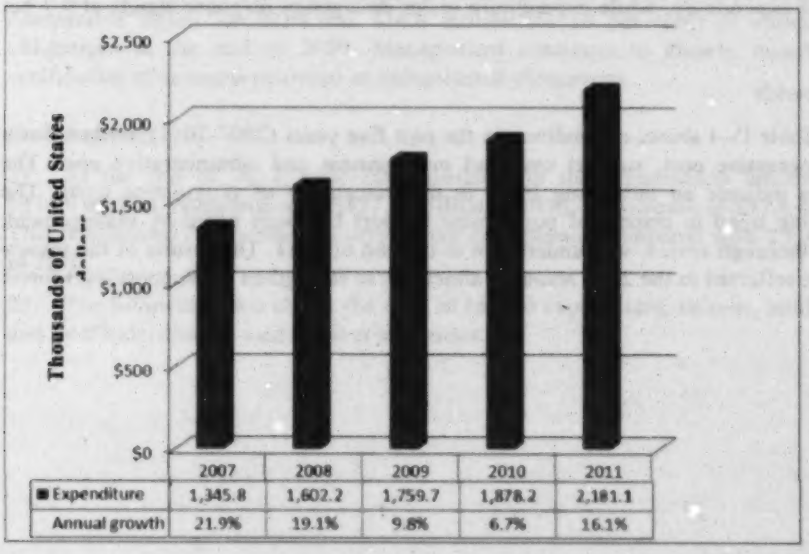
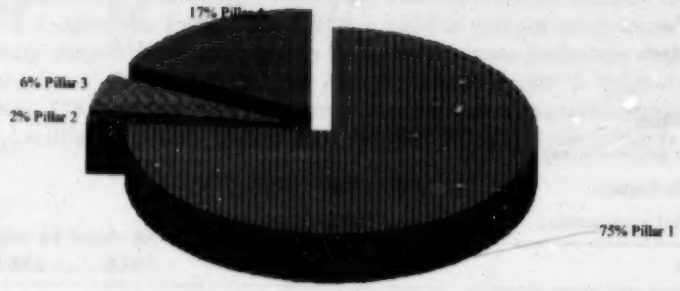


Figure II
Annual budget for 2011: expenditure distribution by pillar
(Percentage)



16. As indicated in figure II, the global refugee programme (pillar 1) predominated, at 75.5 per cent of total expenditure. The largest share of expenditure is under the goal of protection and mixed solutions, representing 36.2 per cent of the total. UNHCR global management represents 17.4 per cent of expenditure by goal, mostly under pillar 1. UNHCR global management includes global programmes (both operational activities and programme support), headquarters and regional offices, and regional support structures, as detailed in the 2010-2011 Global Appeal, as well as global stockpiles. Protection pending solutions represents 11.5 per cent of overall expenditure, while expenditure under emergency response stands at 9.7 per cent.

Cost trends

17. Table IV.4 shows expenditure in the past five years (2007-2011), broken down by programme cost, support cost and management and administrative cost. The figures indicate an increasing trend in the percentage of programme costs. The declining trend in respect of programme support has been noted by management, and a thorough review was undertaken at the end of 2011. The results of the review will be reflected in the 2012 resource allocation to strengthen the support workforce.

Table IV.4
Cost trends: Annual Programme Fund, Reintegration Projects Fund and Internally Displaced Persons Projects Fund
(Percentage)

	2007	*2008*	*2009*	*2010*	*2011*
Management and administration	4	4	4	3.3	3.8
Programme support	22	21	18	15.0	13.1
Programme	74	75	78	81.7	83.1

Implementing partners

18. In 2011, expenditure pertaining to instalments to implementing partners amounted to $794.3 million, representing 36 per cent of total annual budgetary expenditure. This compares with $676.9 million in 2010, which also represented 36 per cent of the total. Table IV.3 shows the balance of instalments of $293.9 million, paid by implementing partners but not yet reported upon; upon receipt of the reports, expenditure will be charged to the appropriate pillar and goal.

D. Other financial highlights

Unliquidated obligations

19. At the end of 2011, unliquidated obligations amounted to $205.8 million (or 26 per cent) of total liabilities, compared with $172.3 million (or 27 per cent) in 2010. The percentage of unliquidated obligations compared with annual budgetary expenditure increased slightly, from 9.2 to 9.4 per cent.

Cancellation of prior-year obligations

20. In 2011, the cancellation of prior-year obligations amounted to $16.5 million, representing 9.6 per cent of unliquidated obligations at the end of 2010. The comparable figure for 2010 was $14.6 million (or 10 per cent) of unliquidated obligations at the end of 2009. Management continues to closely monitor the verification of amounts recorded as unliquidated obligations.

Cash balances

21. At the end of 2011, total cash available to the organization amounted to $534.9 million, compared with $437.1 million in 2010, an increase of $97.8 million. This represented 2.8 months of current-year expenditure, compared with 2.7 months in 2010.

22. The following table shows the ratio of cash to expenditure, income, total assets and total liabilities, as well as other key ratios:

(Thousands of United States dollars)

	2009	2010	2011
Income	**1 802 516**	**1 991 661**	**2 171 048**
Annual variation (percentage)	9.1	10.5	9.0
Expenditure	**1 795 677**	**1 922 495**	**2 278 380**
Average monthly expenditure	149 640	160 208	189 865
Excess/(shortfall) over income	**6 839**	**69 166**	**(107 332)**
Excess/(shortfall) over income as percentage	0.4	3.5	(4.9)
Reserve/fund balance	**(159 987)**	**(72 254)**	**(161 386)**
Assets	**508 903**	**566 194**	**627 289**
Liabilities	**668 890**	**638 448**	**788 675**
Year-end cash and term deposit balance	**382 615**	**437 082**	**534 908**
Cash/term deposit balance over expenditure	0.21	0.23	0.23
Cash/term deposit balance over income	0.21	0.22	0.25
Cash/term deposit equivalent number months expenditure	2.6	2.7	2.8
Cash/term deposit balance over total assets[a]	0.75	0.77	0.85
Cash/term deposit balance over total liabilities[b]	0.57	0.68	0.68
Contributions receivable	**88 455**	**98 720**	**62 085**
Contributions receivable over total assets[c]	0.17	0.17	0.10
Unliquidated obligations	**145 640**	**172 254**	**205 794**
Unliquidated obligations over total liabilities[d]	0.22	0.27	0.26

[a] A high indicator depicts a healthy financial position.
[b] A low indicator signifies that insufficient cash is available to settle debts.
[c] A low indicator depicts a healthy financial position.
[d] A low indicator signifies that obligations are being liquidated.

23. The ratio of year-end cash and term deposits to annual expenditure has been fairly stable, ranging between 0.21 and 0.23 from 2009 to 2011. Although year-end cash and term deposit balances increased every year over that period, they have done so in response to rising annual levels of income and expenditure over the same term. This has meant that the equivalent months of expenditure represented by cash and term deposits has held steady at a modest level, ranging between 2.6 and 2.8 from 2009 to 2011.

Reserves and fund balances

24. The reserves and fund balances of the organization at year end were in net deficit by $161.4 million. The net deficit was due to unfunded liabilities in the Staff Benefits Fund of $482.9 million which were only partially offset by the surplus of $39.5 million in the Medical Insurance Plan, the balance in the Working Capital and Guarantee Fund of $50 million, and the carry-over from the annual budget funds amounting to $232.0 million, shown in table IV.1. Formal approval for the funding of a reserve for after-service and post-retirement staff benefits was given at the meeting of the Standing Committee in June 2011. As from 1 January 2012, a monthly payroll charge of 3 per cent will be applied to the net base salary of all

Professional staff and of relevant General Service staff to start building a reserve for funding after-service health insurance. If available, a maximum of $2 million in savings from staff costs will be allocated on an annual basis for the constitution of a reserve for funding repatriation benefits.

Working Capital and Guarantee Fund

25. The Working Capital and Guarantee Fund was established to replenish the Annual Programme Fund and to meet essential payments pending receipt of contributions pledged or anticipated. The Fund derives its income mainly from interest on invested funds and currency-exchange adjustments. It has an established ceiling of $50 million. In 2011, operational requirements were met without the need to draw from the Working Capital and Guarantee Fund.

Interest income

26. The organization earns interest income primarily from cash and cash equivalent surplus balances, including two- to three-month term deposits that it maintains throughout the year with highly creditworthy, selected banking counterparties. In 2011, interest income was $1.5 million, of which $1.2 million was reported in the Working Capital and Guarantee Fund and $0.3 million in the Medical Insurance Plan. This represents an increase of $0.4 million, compared with $1.1 million in 2010. Despite the low interest rate environment throughout the world, UNHCR achieved interest income results that were above the established benchmark (the three-month average rate for United States Treasury Bills), which reflected effective liquidity and risk management.

Currency-exchange adjustments

27. In 2011, financial markets around the globe continued to experience high volatility and uncertainty, with downside macroeconomic concerns, the sovereign debt problems in Europe and, in general, dramatic events such as the unfolding events in the Arab region and the Japanese earthquake and tsunami. UNHCR risk management measures were successfully applied to ensure that realized foreign exchange losses were minimized and cash holdings and investments were safeguarded.

28. In 2011, currency-exchange adjustments resulted in a net gain of $21.2 million, compared with a net loss in 2010 of $17.1 million. The net gain in 2011 consists of net realized gains of $27.4 million and net unrealized losses of $6.2 million.

29. The total net realized gains of $27.4 million comprise net realized gains from contributions amounting to $14.6 million, net realized gains of $13.4 million from treasury foreign exchange operations that were settled during the year, and net realized losses derived from accounts payable and other sources amounting to $0.6 million.

30. The total of net unrealized losses of $6.2 million was mainly attributable to the results of year-end revaluations of open commitments, accounts receivable and payable, and cash balances.

31. In 2011, approximately 51 per cent of voluntary contributions to the organization were denominated in United States dollars, 20 per cent in euros, 6 per

cent in pounds sterling, 6 per cent in Swedish kronor, 4 per cent in Norwegian kroner, 4 per cent in Japanese yen, 3 per cent in Australian dollars, 3 per cent in Canadian dollars, 2 per cent in Danish kroner and 1 per cent in Swiss francs.

Central Emergency Response Fund

32. In 2011, UNHCR did not borrow from the Central Emergency Response Fund, which was created by the General Assembly in 1992 for use by operational organizations in the early stages of emergencies. The organization did, however, receive contributions in the form of Central Emergency Fund grants, amounting to $26.6 million for pillars 1 and 2, and $23.5 million for pillar 4.

Implementation of the International Public Sector Accounting Standards

33. In June 2011, UNHCR reiterated its commitment to fully implement IPSAS as from 1 January 2012, with the aim of publishing IPSAS-compliant financial statements for the financial period ended 31 December 2012.

34. Preparatory work for the implementation of IPSAS progressed significantly in 2011, with emphasis on the formulation, approval and dissemination of IPSAS-related policies and procedures, and on data quality to enable the establishment of opening balances for 2012. Significant effort was put into the physical verification of the organization's property, plant and equipment and of its inventories worldwide. An accounts validation exercise was also conducted during the second half of 2011, resulting in write-offs of long-outstanding receivable and payable balances. Several training initiatives were put in place, such as mandatory online IPSAS training and instructor-led training for relevant staff.

35. With a structured governance management review process in place (Steering Committee, Business Owners Committee and other working groups), UNHCR has continued to closely monitor the progress of IPSAS in order to ensure its implementation is effective as of the financial year 2012.

Chapter V
Financial statements for the year ended 31 December 2011

Statement I

Income and expenditure and changes in reserves and fund balances for the year ended 31 December 2011

(Thousands of United States dollars)

		Working Capital and Guarantee Fund	*Annual Programme Fund*	*Reintegration Projects Fund*	*Internally Displaced Persons Projects Fund*	*United Nations Regular Budget Fund*	*Junior Professional Officers Fund*	*Staff Benefits Fund*	*Medical Insurance Plan*	*Total*	
										2011	*2010*
Income											
Voluntary contributions	Note 2 (d), Sch 1	–	1 799 011	44 166	235 612	–	9 486	–	–	2 088 275	1 863 832
Regular budget contribution	Note 3	–		–	–	44 059	–	–	–	44 059	39 641
Other/miscellaneous income											
Interest income	Note 2 (e), Note 8 (a)	1 202	–	–	–	–	–	–	324	1 526	1 087
Currency-exchange adjustments	Note 2 (f)	21 241	–	–	–	–	–	–	–	21 241	(17 052)
Other/miscellaneous income	Note 2 (g)	–	8 187	4	22	–	–	–	7 734	15 947	104 153
Total income		**22 443**	**1 807 198**	**44 170**	**235 634**	**44 059**	**9 486**	**–**	**8 058**	**2 171 048**	**1 991 661**
Expenditure											
Expenditure	Note 2 (h), Note 5, Sch 2[a]	2 210	1 627 216	121 380	378 855	44 059	9 590	89 650	5 420	2 278 380	1 922 495
Total expenditure		**2 210**	**1 627 216**	**121 380**	**378 855**	**44 059**	**9 590**	**89 650**	**5 420**	**2 278 380**	**1 922 495**
Excess (shortfall) of income over expenditure		20 233	179 982	(77 210)	(143 221)	–	(104)	(89 650)	2 638	(107 332)	69 166
Adjustments to prior-year contributions	Note 2 (i)	–	(2 000)	–	(456)	–	–	–	–	(2 456)	(4 385)

		Working Capital and Guarantee Fund	*Annual Programme Fund*	*Reintegration Projects Fund*	*Internally Displaced Persons Projects Fund*	*United Nations Regular Budget Fund*	*Junior Professional Officers Fund*	*Staff Benefits Fund*	*Medical Insurance Plan*	*Total*	
										2011	*2010*
Adjustments to prior-year expenditure	Note 2 (j), Note 6	–	(6 303)	383	8 960	–	(45)	99	(10)	3 084	8 331
Net excess (shortfall) of income over expenditure		**20 233**	**171 679**	**(76 827)**	**(134 717)**	**–**	**(149)**	**(89 551)**	**2 628**	**(106 704)**	**73 112**
Cancellation of prior-year obligations	Note 2 (k), Sch 3[b]	–	13 783	1 393	1 262	–	–	29	–	16 467	14 621
Transfer (to)/from other funds	Note 4	(20 233)	(183 557)	75 434	129 483	–	(1 151)	24	–	–	–
Adjustments for prior-period end-of-service liabilities		–	–	–	–	–	–	–	–	–	–
Adjustment for first-time recognition of land and buildings	Note 16	–	1 105	–	–	–	–	–	–	1 105	–
Reserves and fund balances, beginning of year		**50 000**	**208 961**	**–**	**14 250**	**–**	**11 094**	**(393 420)**	**36 861**	**(72 254)**	**(159 987)**
Reserves and fund balances, end of year	Sch 2[a]	**50 000**	**211 971**	**–**	**10 278**	**–**	**9 794**	**(482 918)**	**39 489**	**(161 386)**	**(72 254)**

[a] Schedule 2 does not include the Working Capital and Guarantee Fund, Junior Professional Officers Fund, Staff Benefits Fund and Medical Insurance Plan.
[b] Schedule 3 does not include Staff Benefits Fund.

Statement II

Assets, liabilities, reserves and fund balances as at 31 December 2011

(Thousands of United States dollars)

	Schedule or note reference	*Working Capital and Guarantee Fund*	*Annual Programme Fund*	*Reintegration Projects Fund*	*Internally Displaced Persons Projects Fund*	*United Nations Regular Budget Fund*	*Junior Professional Officers Fund*	*Staff Benefits Fund*	*Medical Insurance Plan*	*Total*	
										2011	*2010*
Assets											
Cash and term deposits	Note 8	49 902	412 128	2 513	21 163	–	9 713	–	39 489	534 908	437 082
Accounts receivable:											
Voluntary contributions receivable	Note 9	–	42 979	2 439	16 586	–	81	–	–	62 085	98 720
Due from United Nations agencies	Note 11	–	1 491	–	–	–	–	–	–	1 491	1 142
Due from implementing agencies, net	Note 12	–	548	2	26	–	–	–	–	576	2 049
Other receivables	Note 13	–	20 980	–	–	–	–	–	–	20 980	21 255
Other assets	Note 15	98	1 904	–	–	–	–	–	–	2 002	1 804
Land and buildings	Note 16	–	5 247	–	–	–	–	–	–	5 247	4 142
Total assets		**50 000**	**485 277**	**4 954**	**37 775**	**–**	**9 794**	**–**	**39 489**	**627 289**	**566 194**
Liabilities											
Contributions received in advance	Note 2 (d)	–	52 243	–	–	–	–	–	–	52 243	41 472
Unliquidated obligations	Note 2 (o), Sch 2[a]		173 343	4 954	27 497	–	–	–	–	205 794	172 254
Accounts payable	Note 18	–	47 155	–	–	–	–	–	–	47 155	31 024
End-of-service and post-retirement liability	Note 2 (s), Note 19	–	565	–	–	–	–	482 918	–	483 483	393 698
Total liabilities		**–**	**273 306**	**4 954**	**27 497**	**–**	**–**	**482 918**	**–**	**788 675**	**638 448**
Reserves and fund balances	Sch 2[a]	**50 000**	**211 971**	**–**	**10 278**	**–**	**9 794**	**(482 918)**	**39 489**	**(161 386)**	**(72 254)**
Total liabilities, reserves and fund balances		**50 000**	**485 277**	**4 954**	**37 775**	**–**	**9 794**	**–**	**39 489**	**627 289**	**566 194**

[a] Schedule 2 does not include the Working Capital and Guarantee Fund, Junior Professional Officers Fund, Staff Benefits Fund and Medical Insurance Plan.

Statement III

Cash flows for the year ended 31 December 2011

(Thousands of United States dollars)

	Working Capital and Guarantee Fund	*Annual Programme Fund*	*Reintegration Projects Fund*	*Internally Displaced Persons Projects Fund*	*United Nations Regular Budget Fund*	*Junior Professional Officers Fund*	*Staff Benefits Fund*	*Medical Insurance Plan*	*Total*	
									2011	*2010*
Cash flows from operating activities										
Net excess (shortfall) of income over expenditure (statement I)	20 233	171 679	(76 827)	(134 717)	–	(149)	(89 551)	2 628	(106 704)	73 112
(Increase) decrease in contribution receivable	–	26 983	(247)	8 493	–	1 406	–	–	36 635	(10 265)
(Increase) decrease in other accounts receivable	–	1 361	(2)	40	–	–	–	–	1 399	7 016
(Increase) decrease in inventory	–	–	–	–	–	–	–	–	–	–
(Increase) decrease in other assets	(76)	(122)	–	–	–	–	–	–	(198)	425
(Increase) decrease in land and buildings	–	(1 105)	–	–	–	–	–	–	(1 105)	–
Increase (decrease) in contributions received in advance	–	10 771	–	–	–	–	–	–	10 771	8 920
Increase (decrease) in unliquidated obligations	–	87 704	(8 610)	(45 541)	–	(13)	–	–	33 540	26 614
Increase (decrease) in accounts payable	–	16 131	–	–	–	–	–	–	16 131	(11 290)
Increase (decrease) in end-of-service and post-retirement liability	–	565	–	–	–	–	89 220	–	89 785	(54 686)
Less: interest income	(1 202)	–	–	–	–	–	–	(324)	(1 526)	(1 087)
Currency-exchange adjustments[a]	(27 395)	–	–	–	–	–	–	–	(27 395)	2 748
Net cash from operating activities	**(8 440)**	**313 967**	**(85 686)**	**(171 725)**	**–**	**1 244**	**(331)**	**2 304**	**51 333**	**41 507**
Cash flows from investing and financing activities										
Interest income	1 202	–	–	–	–	–	–	324	1 526	1 087

	Working Capital and Guarantee Fund	*Annual Programme Fund*	*Reintegration Projects Fund*	*Internally Displaced Persons Projects Fund*	*United Nations Regular Budget Fund*	*Junior Professional Officers Fund*	*Staff Benefits Fund*	*Medical Insurance Plan*	*Total*	
									2011	*2010*
Currency-exchange adjustments[a]	27 395	–	–	–	–	–	–	–	27 395	(2 748)
Cash flows from investing and financing activities	**28 597**	**–**	**–**	**–**	**–**	**–**	**–**	**324**	**28 921**	**(1 661)**
Cash flows from other sources[b]										
Cancellation of prior-year obligations	–	13 783	1 393	1 262	–	–	29	–	16 467	14 621
Transfer (to)/from other funds	(20 233)	(183 557)	75 434	129 483	–	(1 151)	24	–	–	–
Adjustments for prior end-of-service liabilities	–	–	–	–	–	–	–	–	–	–
Adjustment for first-time recognition of land and buildings	–	1 105	–	–	–	–	–	–	1 105	–
Net cash from other sources	**(20 233)**	**(168 669)**	**76 827**	**130 745**	**–**	**(1 151)**	**53**	**–**	**17 572**	**14 621**
Net increase (decrease) in cash and term deposits	(76)	145 298	(8 859)	(40 980)	–	93	(278)	2 628	97 826	54 467
Cash and term deposits at beginning of year	**49 978**	**266 830**	**11 372**	**62 143**	**–**	**9 620**	**278**	**36 861**	**437 082**	**382 615**
Cash and term deposits at end of year	**49 902**	**412 128**	**2 513**	**21 163**	**–**	**9 713**	**–**	**39 489**	**534 908**	**437 082**

[a] Represents realized currency-exchange adjustments, whereas currency-exchange adjustments in statement I (21,241) comprise both realized (27,395) and unrealized (6,154) adjustments.

[b] The statement of cash flows is presented in accordance with the United Nations system accounting standards. Cash flows from other sources contain non-cash items that are required to reconcile the net excess (shortfall) of income over expenditure to arrive at cash and term deposits balances at the end of the year.

Schedule 1

Voluntary contributions by donor and by fund for the year ended 31 December 2011

(Thousands of United States dollars)

	Annual Programme Fund			*Reintegration Projects Fund*			*Internally Displaced Persons Projects Fund*			*Junior Professional Officers Fund*			*Total*		
Donor	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*
Governments															
Algeria	100		100										100		100
Andorra	52		52										52		52
Argentina	100		100										100		100
Australia	55 437		55 437	405		405	695		695				56 537		56 537
Austria	3 197		3 197										3 197		3 197
Azerbaijan	20		20										20		20
Belgium	19 956		19 956	1 493		1 493	4 779		4 779	702		702	26 930		26 930
Brazil	3 070		3 070	580		580	100		100				3 750		3 750
Bulgaria	8		8										8		8
Canada	54 462		54 462				4 081		4 081				58 543		58 543
Chile	100		100										100		100
China	250		250										250		250
Colombia	10		10										10		10
Costa Rica	17		17										17		17
Côte d'Ivoire	10		10										10		10
Cyprus	34		34										34		34
Czech Republic	127		127										127		127
Denmark	37 544		37 544	5 185		5 185	3 520		3 520	602		602	46 851		46 851
Egypt	25		25										25		25
Estonia	207		207	56		56	12		12				275		275
Finland	27 249		27 249				435		435	390		390	28 074		28 074
France	21 081	48	21 129				4 353		4 353	499		499	25 933	48	25 981
Germany	32 841	5 184	38 025	12 022	216	12 238	3 700	1 001	4 701	714		714	49 277	6 401	55 678
Greece	2 131		2 131										2 131		2 131
Holy See	20		20										20		20
Hungary		1 704	1 704											1 704	1 704

Donor	Annual Programme Fund			Reintegration Projects Fund			Internally Displaced Persons Projects Fund			Junior Professional Officers Fund			Total		
	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total
Iceland	203		203										203		203
Ireland	10 926	270	11 196										10 926	270	11 196
Israel	60		60										60		60
Italy	5 207	386	5 593				1 858		1 858	391		391	7 456	386	7 842
Japan	138 292	1 081	139 373	13 438		13 438	72 388		72 388	907		907	225 025	1 081	226 106
Kuwait	1 000		1 000										1 000		1 000
Liechtenstein	332		332										332		332
Lithuania	21		21										21		21
Luxembourg	9 526		9 526				329		329	109		109	9 964		9 964
Malta	79		79										79		79
Mexico	50		50										50		50
Monaco	283		283										283		283
Morocco	1 000		1 000										1 000		1 000
Netherlands	76 470		76 470				409		409	1 683		1 683	78 562		78 562
New Zealand	5 453		5 453				786		786				6 239		6 239
Norway	71 617	95	71 712	100		100	3 440		3 440	858		858	76 015	95	76 110
Oman	100		100										100		100
Poland	810		810										810		810
Portugal	300		300										300		300
Qatar	100		100										100		100
Republic of Korea	4 200		4 200				400		400	97		97	4 697		4 697
Romania	141		141				68		68				209		209
Russian Federation	1 800		1 800				200		200				2 000		2 000
Saudi Arabia	112		112										112		112
Serbia	64		64										64		64
Singapore	10		10										10		10
Slovak Republic	13		13										13		13
Slovenia	205		205										205		205
South Africa	610		610										610		610
Spain	24 054	301	24 355	1 145		1 145	5 037		5 037	357		357	30 593	301	30 894

Donor	Annual Programme Fund			Reintegration Projects Fund			Internally Displaced Persons Projects Fund			Junior Professional Officers Fund			Total		
	Cash	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*
Sweden	116 268	92	116 360				1 460		1 460	855		855	118 583	92	118 675
Switzerland	23 999	1 649	25 648	100		100	5 420		5 420	457		457	29 976	1 649	31 625
Thailand	20		20										20		20
Turkey	201		201										201		201
United Arab Emirates	200	300	500										200	300	500
United Kingdom of Great Britain and Northern Ireland	116 425	1 182	117 607				3 086		3 086				119 511	1 182	120 693
United States of America	653 268		653 268				44 900		44 900				698 168		698 168
Governments	**1 521 467**	**12 292**	**1 533 759**	**34 524**	**216**	**34 740**	**161 456**	**1 001**	**162 457**	**8 621**		**8 621**	**1 726 068**	**13 509**	**1 739 577**
European Commission	**97 129**		**97 129**	**8 562**		**8 562**	**27 501**		**27 501**				**133 192**		**133 192**
Intergovernmental organizations															
African Development Bank	630		630										630		630
African Union	615		615				400		400				1 015		1 015
Arab Gulf Programme for United Nations Development Organization	50		50										50		50
Council of Europe/ Development Bank	370		370				102		102				472		472
Intergovernmental Authority on Development	739		739	73		73	51		51				863		863
International Organization for Migration	220	20	240				21		21				241	20	261
Economic Community of West African States	500		500										500		500

Donor	Annual Programme Fund			Reintegration Projects Fund			Internally Displaced Persons Projects Fund			Junior Professional Officers Fund			Total		
	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total
OPEC Fund for International Development	989		989										989		989
World Bank	10 511		10 511										10 511		10 511
Intergovernmental organizations	**14 624**	**20**	**14 644**	**73**		**73**	**574**		**574**				**15 271**	**20**	**15 291**
United Nations-pooled funding mechanism															
Stabilization and Recovery Funding Facility	270		270										270		270
United Nations Children's Fund		663	663											663	663
United Nations Trust Fund for International Cooperation and Development							72		72				72		72
United Nations Population Fund	454	9	463				23		23				477	9	486
Common Humanitarian Fund for the Democratic Republic of the Congo							1 799		1 799				1 799		1 799
United Nations High Commissioner for Human Rights							100		100				100		100
Common Humanitarian Fund for the Sudan	2 492		2 492				5 111		5 111				7 603		7 603
Common Humanitarian Fund for the Central African Republic							283		283				283		283
Common Humanitarian Fund for Somalia							2 697		2 697				2 697		2 697
Central Emergency Response Fund	26 633		26 633				23 522		23 522				50 155		50 155

Donor	Annual Programme Fund			Reintegration Projects Fund			Internally Displaced Persons Projects Fund			Junior Professional Officers Fund			Total		
	Cash	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*	*Cash*	*In-kind*	*Total*
Joint United Nations Programme on HIV/AIDS	4 629		4 629										4 629		4 629
United Nations Development Group Iraq Trust Fund	62		62	551		551	120		120				733		733
United Nations Development Programme	6 297		6 297				239		239				6 536		6 536
United Nations Trust Fund for Human Security	1 506		1 506	12		12	461		461				1 979		1 979
United Nations Peacebuilding Fund	2 401		2 401	68		68	6 187		6 187				8 656		8 656
United Nations Delivering as One	1 363		1 363										1 363		1 363
United Nations Millennium Development Goals							232		232	865		865	1 097		1 097
Food and Agriculture Organization of the United Nations	15		15										15		15
World Health Organization	5		5										5		5
United Nations-pooled funding mechanism	**46 127**	**672**	**46 799**	**631**		**631**	**40 846**		**40 846**	**865**		**865**	**88 469**	**672**	**89 141**
Private donors															
Bangladesh	2		2										2		2
Argentina							14		14				14		14
Austria	43		43										43		43
Australia	12 124		12 124				1 488		1 488				13 612		13 612
Canada	1 611		1 611				4		4				1 615		1 615
China	3 352		3 352				116		116				3 468		3 468

Donor	Annual Programme Fund			Reintegration Projects Fund			Internally Displaced Persons Projects Fund			Junior Professional Officers Fund			Total		
	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total
Czech Republic	1		1										1		1
Denmark	185		185										185		185
France	1		1										1		1
Germany	5 012		5 012				1 170		1 170				6 182		6 182
Greece	319		319										319		319
Italy	13 702		13 702				56		56				13 758		13 758
Ireland		19	19											19	19
Japan	10 749	403	11 152				305		305				11 054	403	11 457
Jordan	1		1				6		6				7		7
Kenya	8		8										8		8
Korea	1 329		1 329				1		1				1 330		1 330
Luxembourg	150		150										150		150
Malaysia	2		2										2		2
Mexico	12		12										12		12
Monaco	33		33										33		33
Netherlands	23 491	2 227	25 718				250		250				23 741	2 227	25 968
Pakistan	66		66										66		66
Portugal	363		363										363		363
Saudi Arabia							533		533				533		533
Serbia							119		119				119		119
Spain	14 730		14 730				42		42				14 772		14 772
Sweden	661	210	871										661	210	871
Switzerland	2 240	100	2 340				77		77				2 317	100	2 417
Thailand	3 330		3 330										3 330		3 330
United Arab Emirates	13		13										13		13
United Kingdom of Great Britain and Northern Ireland	2 116	500	2 616										2 116	500	2 616

Donor	Annual Programme Fund			Reintegration Project Fund			Internally Displaced Persons Projects Fund			Junior Professional Officers Fund			Total		
	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total	Cash	In-kind	Total
United States of America	6 427	1 148	7 575	160		160	53		53				6 640	1 148	7 788
Private donors	**102 073**	**4 607**	**106 680**	**160**		**160**	**4 234**		**4 234**				**106 467**	**4 607**	**111 074**
Total	**1 781 420**	**17 591**	**1 799 011**	**43 950**	**216**	**44 166**	**234 611**	**1 001**	**235 612**	**9 486**		**9 486**	**2 069 467**	**18 808**	**2 088 275**

Schedule 2
Funds available for all voluntary funds as at 31 December 2011

(Thousands of United States dollars)

Annual Programme Fund	*Funds available*	*Expenditure*			*Balance*
		Disbursements/ deliveries	*Unliquidated obligations*	*Total*	
Field operations					
Africa					
West Africa	93 692	91 655	2 037	93 692	-
East and Horn of Africa	425 247	366 606	57 638	424 244	1 003
Central Africa and Great Lakes	126 424	116 257	10 165	126 422	2
Southern Africa	44 465	41 586	2 879	44 465	-
Africa	**689 828**	**616 104**	**72 719**	**688 823**	**1 005**
Middle East and North Africa					
North Africa	87 617	79 834	7 783	87 617	-
Middle East	214 318	179 458	11 179	190 637	23 681
Middle East and North Africa	**301 935**	**259 292**	**18 962**	**278 254**	**23 681**
Asia and the Pacific					
South-West Asia	168 735	92 188	6 891	99 079	69 656
Central Asia	8 707	8 297	410	8 707	-
South Asia	24 598	23 112	559	23 671	927
South-East Asia	43 921	41 132	2 789	43 921	-
East Asia and the Pacific	12 509	12 367	142	12 509	-
Asia and the Pacific	**258 470**	**177 096**	**10 791**	**187 887**	**70 583**
Europe					
Eastern Europe	35 525	34 959	566	35 525	-
South-Eastern Europe	21 511	21 372	139	21 511	-
Central Europe, overall	8 409	8 217	121	8 338	71
Northern, Western, Southern Europe	31 870	31 289	581	31 870	-
Europe	**97 315**	**95 837**	**1 407**	**97 244**	**71**
Americas					
North America and Caribbean	9 647	8 487	65	8 552	1 095
Latin America	30 824	30 504	320	30 824	-
Americas	**40 471**	**38 991**	**385**	**39 376**	**1 095**
Field operations	**1 388 019**	**1 187 320**	**104 264**	**1 291 584**	**96 435**
Global programmes	**184 303**	**122 672**	**57 785**	**180 457**	**3 846**
Headquarters	**155 175**	**143 881**	**11 294**	**155 175**	-

Annual Programme Fund	*Funds available*	*Expenditure*			*Balance*
		Disbursements/ deliveries	*Unliquidated obligations*	*Total*	
Overall	**111 690**	–	–	–	**111 690**
Total Annual Programme Fund	**1 839 187**	**1 453 873**	**173 343**	**1 627 216**	**211 971**

Reintegration Projects Fund	*Funds available*	*Expenditure*			*Balance*
		Disbursements/ deliveries	*Unliquidated obligations*	*Total*	
Field operations					
Africa					
West Africa	9 561	9 539	22	9 561	–
East and Horn of Africa	6 698	6 541	157	6 698	–
Central Africa and Great Lakes	22 561	21 862	699	22 561	–
Southern Africa	421	392	29	421	–
Africa	**39 241**	**38 334**	**907**	**39 241**	–
Middle East and North Africa					
Middle East and North Africa	22 645	21 917	727	22 645	–
Middle East and North Africa	**22 645**	**21 917**	**727**	**22 645**	–
Asia and the Pacific					
South-West Asia	53 175	49 887	3 288	53 175	–
South-East Asia	153	153	–	153	–
Asia and the Pacific	**53 328**	**50 040**	**3 288**	**53 328**	–
Europe					
Eastern Europe	529	529	–	529	–
South-Eastern Europe	5 637	5 605	32	5 637	–
Europe	**6 166**	**6 134**	**32**	**6 166**	–
Field operations	**121 380**	**116 425**	**4 954**	**121 380**	–
Total Reintegration Projects Fund	**121 380**	**116 425**	**4 954**	**121 380**	–

Internally Displaced Persons Projects Fund	*Funds available*	*Expenditure*			*Balance*
		Disbursements/ deliveries	*Unliquidated obligations*	*Total*	
Field operations					
Africa					
West Africa	6 505	6 492	13	6 505	–
East and Horn of Africa	100 486	92 919	4 071	96 990	3 496

Internally Displaced Persons Projects Fund	*Funds available*	*Expenditure*			*Balance*
		Disbursements/ deliveries	*Unliquidated obligations*	*Total*	
Central Africa and Great Lakes	24 366	23 943	423	24 366	–
Southern Africa	1 817	1 752	65	1 817	–
Africa	**133 174**	**125 106**	**4 572**	**129 678**	**3 496**
Middle East and North Africa					
North Africa	2 565	2 237	328	2 565	–
Middle East	58 951	53 114	5 837	58 951	–
Middle East and North Africa	**61 516**	**55 351**	**6 165**	**61 516**	**–**
Asia and the Pacific					
South-West Asia	122 469	107 164	15 305	122 469	–
Central Asia	8 625	4 464	58	4 522	4 103
South Asia	9 467	8 946	521	9 467	–
South-East Asia	7 875	7 490	385	7 875	–
East Asia and the Pacific	444	444	–	444	–
Asia and the Pacific	**148 880**	**128 508**	**16 269**	**144 777**	**4 103**
Europe					
Eastern Europe	14 627	14 564	63	14 627	–
South-Eastern Europe	10 184	10 140	44	10 184	–
Europe	**24 811**	**24 704**	**107**	**24 811**	**–**
Americas					
North America and Caribbean	4 543	1 573	291	1 864	2 679
Latin America	16 209	16 116	93	16 209	–
Americas	**20 752**	**17 689**	**384**	**18 073**	**2 679**
Field operations	**389 133**	**351 358**	**27 497**	**378 855**	**10 278**
Total Internally Displaced Persons Projects Fund	**389 133**	**351 358**	**27 497**	**378 855**	**10 278**

United Nations Regular Budget Fund	*Funds available*	*Expenditure*			*Balance*
		Disbursements/ deliveries	*Unliquidated obligations*	*Total*	
Headquarters	43 284	44 059	–	44 059	(775)
Overall	775	–	–	–	775
Total United Nations Regular Budget Fund	**44 059**	**44 059**	**–**	**44 059**	**–**

Schedule 3

Status of obligations for prior years as at 31 December 2011

(Thousands of United States dollars)

Annual Programme Fund	*Unliquidated obligations 1 January 2011*	*Payments during 2011*	*Cancellations during 2011*	*Remaining unliquidated obligations relating to prior years still outstanding at 31 December 2011*
Field operations				
Africa				
West Africa	2 297	2 098	199	
East and Horn of Africa	25 157	21 214	3 836	107
Central Africa and Great Lakes	13 506	11 176	2 321	9
Southern Africa	1 296	1 026	243	27
Africa	**42 256**	**35 514**	**6 599**	**143**
Middle East and North Africa				
North Africa	2 056	1 931	101	24
Middle East	11 352	10 065	1 260	27
Middle East and North Africa	**13 408**	**11 996**	**1 361**	**51**
Asia and the Pacific				
South-West Asia	7 935	6 470	1 448	17
Central Asia	180	178	2	
South Asia	732	626	106	
South-East Asia	943	859	84	
East Asia and the Pacific	178	138	40	
Asia and the Pacific	**9 968**	**8 271**	**1 680**	**17**
Europe				
Eastern Europe	834	799	35	
South-Eastern Europe	364	251	113	
Central Europe	68	21	47	
North, Western, Southern Europe	1 188	677	511	
Europe	**2 454**	**1 748**	**706**	
Americas				
North America and Caribbean	307	297	10	
Latin America	650	630	20	
Americas	**957**	**927**	**30**	
Field operations	**69 043**	**58 456**	**10 376**	**211**
Global Programmes	**41 330**	**39 833**	**1 336**	**161**

Annual Programme Fund	*Unliquidated obligations 1 January 2011*	*Payments during 2011*	*Cancellations during 2011*	*Remaining unliquidated obligations relating to prior years still outstanding at 31 December 2011*
Headquarters	9 407	7 295	2 071	41
Total Annual Programme Fund	**119 780**	**105 584**	**13 783**	**413**

Reintegration Projects Fund	*Unliquidated obligations 1 January 2011*	*Payments during 2011*	*Cancellations during 2011*	*Remaining unliquidated obligations relating to prior years still outstanding at 31 December 2011*
Field operations				
Africa	3 179	2 635	544	
Middle East and North Africa	6 369	5 624	745	
Asia and the Pacific	1 308	1 204	104	
Europe	35	35		
Total Reintegration Projects Fund	**10 891**	**9 498**	**1 393**	

Internally Displaced Persons Projects Fund	*Unliquidated obligations 1 January 2011*	*Payments during 2011*	*Cancellations during 2011*	*Remaining unliquidated obligations relating to prior years still outstanding at 31 December 2011*
Field operations				
Africa	4 323	4 138	181	4
Middle East and North Africa	9 127	9 040	87	
Asia and the Pacific	27 182	26 274	907	1
Europe	311	309	2	
Americas	635	550	85	
Total Internally Displaced Persons Projects Fund	**41 578**	**40 311**	**1 262**	**5**

Junior Professional Officers Fund	*Unliquidated obligations 1 January 2011*	*Payments during 2011*	*Cancellations during 2011*	*Remaining unliquidated obligations relating to prior years still outstanding at 31 December 2011*
Field operations				
Africa	5	5		
Europe				
Total Junior Professional Officers Fund	**5**	**5**		
Total	**172 254**	**155 398**	**16 438**	**418**

Schedule 4

Approved global needs assessment budget, funds available and expenditure for the year ended 31 December 2011

(Thousands of United States dollars)

	Global needs assessment budget (resource requirement)				*Expenditure*			*Balance*	
	Initial budget approved by Executive Committee, 2009	*Revision/ supplementary budgets*	*Final revised budget*	*Funds available*	*Disbursements*	*Unliquidated obligations*	*Total*	*Difference between final budget and expenditure*	*Balance between funds available and expenditure*
Operations									
Africa	1 022 030	764 415	1 786 445	862 243	779 544	78 198	857 742	928 703	4 501
Middle East and North Africa	543 232	108 317	651 549	386 096	336 561	25 854	362 415	289 134	23 681
Asia and the Pacific	440 767	118 618	559 385	460 678	355 644	30 348	385 992	173 393	74 686
Europe	232 927	(20 899)	212 028	128 292	126 675	1 546	128 221	83 807	71
The Americas	85 775	16 825	102 600	61 223	56 680	769	57 449	45 151	3 774
Field operations	**2 324 731**	**987 276**	**3 312 007**	**1 898 532**	**1 655 104**	**136 715**	**1 791 819**	**1 520 188**	**106 713**
Global programmes	90 922	97 240	188 162	184 303	122 672	57 785	180 457	7 705	3 846
Headquarters	149 757	51 300	201 057	198 459	187 940	11 294	199 234	1 823	(775)
Overall	–	–	–	112 465	–	–	–	–	112 465
Operational reserve	182 620	(89 238)	93 382	–	–	–	–	93 382	–
New or additional mandate-related activities reserve	20 000	(4 901)	15 099	–	–	–	–	15 099	–
Junior Professional Officers Fund	12 000	–	12 000	19 384	9 590	–	9 590	2 410	9 794
Grand total	**2 780 030**	**1 041 677**	**3 821 707**	**2 413 143**	**1 975 306**	**205 794**	**2 181 100**	**1 640 607**	**232 043**

Note: Schedule 4 includes the Annual Programme Fund, Reintegration Projects Fund, Internally Displaced Persons Projects Fund, United Nations Regular Budget Fund and Junior Professional Officers Fund. It does not include the Working Capital and Guarantee Fund, Staff Benefits Fund and Medical Insurance Plan.

Appendix I

Letter of representation from the United Nations High Commissioner for Refugees

[20 July 2012]

I acknowledge, as the United Nations High Commissioner for Refugees, my responsibility for preparing financial statements that present fairly, in all material respects, the financial position of the Office of the United Nations High Commissioner for Refugees (UNHCR) at each year-end and the results of its operations and its cash flows for the period then ended, in accordance with the applicable accounting standards.

In preparing the financial statements, I was required to:

- Ensure that the expenditure and income presented in the financial statements were applied to the purposes intended and in all significant respects have been in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for voluntary funds administered by the High Commissioner for Refugees and legislative authority;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts;
- Make an assessment that UNHCR is a going concern and will continue to be in operation throughout the next year.

I confirm that, for the financial year ended 31 December 2011:

- Neither I nor my staff authorized a course of action, the financial impact of which is that transactions infringe the requirements as set out in Financial Regulations of the United Nations, or the financial rules established by the High Commissioner;
- All relevant information pertaining to any proven fraud or suspected fraud has been formally notified to you;
- Having considered and made appropriate enquiries regarding the compliance of UNHCR with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of UNHCR to conduct its operations or which would impact on the results and financial position disclosed in the financial statements;
- All accounting records have been provided to you for the purpose of your audit and all transactions undertaken by UNHCR have been properly reflected and recorded in the accounting records. All other records and related information, including the minutes of all management meetings requested by you, have been supplied to you;
- All significant accounting policies as adopted are described in detail in note 2 to the financial statements and comply, in all material respects, with the requirements of the United Nations systems accounting standards and have been consistently applied;

- The information provided regarding the identification of related parties is complete, and the related-party disclosures in the financial statements are adequate.

Internal control and fraud

I acknowledge my responsibility for the design and implementation of internal controls to prevent and detect errors and fraud.

Other than as already disclosed to the Board of Auditors, I am not aware of any undisclosed fraud or suspected fraud affecting UNHCR, and no allegations of fraud or suspected fraud affecting the financial statements have been communicated to me by staff members, former staff members or others.

Other disclosures to the Board of Auditors

I am not aware of any ex gratia payments made in 2011.

Assets

General

All assets included in the statement of assets liabilities, reserves and fund balances were in existence as at the reporting date and owned by UNHCR, and are free from any lien, encumbrance or charge, except as disclosed in the financial statements. The statement of assets, liabilities, reserves and fund balances includes all buildings owned by UNHCR and the notes to the financial statements disclose the acquisition value of all assets that meet the definition of non-expendable property controlled by UNHCR.

Cash and term deposits

I confirm that all moneys held by UNHCR are included in the cash balance. Except as disclosed in the financial statements, UNHCR has no currency holdings as at 31 December 2011 that were not readily convertible on the international money market.

Contributions receivable

I am satisfied that the contributions receivable as at 31 December 2011 represent valid assets controlled by UNHCR and are expected to produce at least the amounts at which they are stated. There is no evidence since the date of the statement of assets, liabilities, reserves and fund balances that the balances disclosed will not be recovered.

Other assets

On realization in the ordinary course of UNHCR operations, and subject to adverse movements of exchange rates, all assets in the statement of assets, liabilities, reserves and fund balances are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to UNHCR which are known, or may be expected, to be irrecoverable.

Liabilities

General

In all material respects, liabilities have been recorded in the statement of assets, liabilities, reserves and fund balances. Except as formally notified to the Board of Auditors, or disclosed in the financial statements, there were no significant losses in the year and no provisions for losses were required at year-end.

Unliquidated obligations

The unliquidated obligations at as 31 December 2011 represent valid liabilities, in accordance with the stated accounting policy and, in all material respects, are expected to be settled for the amounts at which they are stated. There is no evidence since the date of the statement of assets, liabilities, reserves and fund balances that the balances disclosed for unliquidated obligations will not be settled for the amounts at which they are stated.

End-of-service and post-retirement liability

The accrued staff benefits for end-of-service and post-retirement benefits and the accrued annual leave have been recorded in the financial statements on the basis set out in the adopted accounting policies. All key assumptions for these management estimates have been fully disclosed in the financial statements and all UNHCR data provided to actuaries have been validated by UNHCR.

Contingent liabilities

To the best of my knowledge, there were no other commitments, obligations or pending litigation which might adversely affect UNHCR and require disclosure or provision in the financial statements.

Other disclosures

Results

Except as disclosed in the annual accounts, the results for the year were not materially affected by charges or credits related to the prior year, transactions of a sort not usually undertaken by UNHCR, or circumstances of an exceptional or non-recurring nature.

Unadjusted misstatements

The unadjusted misstatements identified by the Board of Auditors and the extrapolated amounts from adjusted misstatements calculated by the Board have been brought to my attention.

I consider the effects of these unadjusted misstatements to be immaterial, both individually and in aggregate, to the financial statements as a whole.

Implementing partner expenditure

The results of the 2011 audit certification exercise for implementing partner expenditure have not identified any material issues or adjustments to the expenditure recorded in the financial statements.

Earmarked contributions

Where donor contributions were earmarked for specific purposes, UNHCR has applied them to the purposes intended by the donor.

Events after the reporting period

Except as disclosed in the accounts, there have been no material changes since the reporting date affecting assets, liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

(*Signed*) António **Guterres**
United Nations High Commissioner for Refugees

Appendix II

Statement of the objectives and activities of the Office of the United Nations High Commissioner for Refugees

The mandate of the United Nations High Commissioner for Refugees is found in its statute of the Office of the United Nations High Commissioner for Refugees (UNHCR) (General Assembly resolution 428 (V), annex). According to the statute, the High Commissioner, acting under the authority of the General Assembly, shall assume the function of providing international protection, under the auspices of the United Nations, to refugees who fall within the scope of the statute and of seeking permanent solutions for the problem of refugees.

The General Assembly has also called upon the High Commissioner to provide assistance to returnees, as well as to monitor their safety and well-being on return (Assembly resolution 40/118). In addition, on the basis of specific requests from the Secretary-General or the competent principal organs of the United Nations, and with the consent of the State concerned, the High Commissioner provides humanitarian assistance and protection to internally displaced persons (General Assembly resolution 48/116). As regards the High Commissioner's assistance activities, the basic provisions of the statute were expanded by the General Assembly in resolution 832 (IX).

Notes to the financial statements as at 31 December 2011

Note 1
Office of the United Nations High Commissioner for Refugees and its activities

1. The Office of the United Nations High Commissioner for Refugees (UNHCR) was established by the General Assembly in resolution 319A (IV) of 3 December 1949. Its statute was approved by the General Assembly in resolution 428 (V) of 14 December 1950.

2. The overall objectives of UNHCR are to provide international protection to refugees and to seek durable solutions to refugee problems. UNHCR seeks to safeguard the fundamental principles of asylum and non-refoulement and to ensure that the basic rights of refugees are respected and that they are treated in a dignified and humane manner. UNHCR has also developed, at the request of the General Assembly and the Governments concerned, substantial material assistance programmes to meet refugee needs. Subsequent resolutions of the General Assembly, the Economic and Social Council and the Executive Committee of the Programme of the United Nations High Commissioner for Refugees have called on UNHCR, in the context of its mandate, to assist other groups of persons regarded as falling within the concern of the High Commissioner. In complex humanitarian emergencies, UNHCR also contributes to the provision of humanitarian assistance.

3. The High Commissioner reports annually to the General Assembly through the Economic and Social Council. The Executive Committee of the High Commissioner's Programme was established pursuant to General Assembly resolution 1166 (XII) of 26 November 1957, to advise the High Commissioner in the exercise of his or her functions and to approve the use of voluntary funds made available to the High Commissioner. The annual cycle of meetings of the Executive

Committee consists of one annual plenary session and a number of intersessional meetings of the Standing Committee of the Whole. In 2011, the Executive Committee consisted of 85 member countries. Each year, the report on the session of the Executive Committee is submitted to the General Assembly as an addendum to the annual report of the High Commissioner.

4. UNHCR has its headquarters in Geneva. It has a presence in 125 countries, where its core work is managed from a series of regional offices, branch offices, sub-offices and field offices, in the following five regions: Africa, the Americas, Asia and the Pacific, Europe, and the Middle East and North Africa. Global programmes are run from headquarters by the Department of Operations and various divisions.

Note 2
Summary of significant accounting policies

(a) Basis of presentation

5. The accounts of the voluntary funds are maintained in accordance with the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.9). The financial rules are subject to the Financial Regulations of the United Nations. The accounts also conform to the United Nations system accounting standards (A/48/530, annex), as noted by the General Assembly in its resolution 48/216 C and as subsequently revised. The financial year for the voluntary funds administered by the High Commissioner for Refugees is from 1 January to 31 December.

(b) Fund grouping

6. The accounts of UNHCR are maintained on a "fund accounting" basis. Separate funds for general and special purposes are established in accordance with the financial rules.

7. Each fund is maintained as a distinct financial and accounting entity with separate, self-balancing, double-entry groups of accounts. Each fund is shown separately in the financial statements.

8. Transfers within the same fund, or allocations between funds, can be authorized by the High Commissioner, in accordance with the financial rules.

9. Funds reported in the financial statements are the following:

(a) The *Working Capital and Guarantee Fund*, which has an established ceiling of $50 million approved by the Executive Committee and which is maintained by income from interest on invested funds and savings from prior-year programmes. The Fund is utilized to replenish the Annual Programme Fund and to meet essential payments and guarantee obligations, pending the receipt of contributions pledged;

(b) The *Annual Programme Fund*, which covers the financial requirements approved biennially by the Executive Committee for programmed activities relating to pillar 1, global refugee programme, and pillar 2, global stateless programme. It also includes operational reserves from which the High Commissioner may make allocations to other parts of the annual budget, including supplementary budgets;

(c) The *Reintegration Projects Fund*, which covers the financial requirements approved biennially by the Executive Committee for programmed activities relating to pillar 3, global reintegration projects;

(d) The *Internally Displaced Persons Projects Fund*, which covers the financial requirements approved biennially by the Executive Committee for programmed activities relating to pillar 4, global internally displaced persons projects;

(e) The *United Nations Regular Budget Fund*, which covers staff and other management and administration costs as determined under the statute of the Office (General Assembly resolution 428 (V), annex, para. 20);

(f) The *Junior Professional Officers Fund*, which covers financial activities exclusively allocated for the recruitment, training and development of young professionals sponsored by various Governments;

(g) The *Staff Benefits Fund*, which covers financial activities related to end-of-service accrued benefit liabilities in respect of after-service health insurance, accrued annual leave and repatriation entitlements;

(h) The *Medical Insurance Plan*, which was established by the General Assembly at its forty-first session in accordance with United Nations staff regulation 6.2. The objective of the Plan is to assist subscribers and eligible family members in meeting expenses incurred for certain health services, facilities and supplies arising out of sickness, accident or maternity. The Plan is maintained by premiums from field staff and proportional contributions from UNHCR, as well as by interest income. Payments are based on claims processed during the year to cover field staff medical costs. Coverage under the Plan is limited to locally recruited General Service staff members and National Professional Officers in the field. All other staff members are covered by the insurance scheme of the United Nations Office at Geneva, the United Nations Staff Mutual Insurance Society, the operations of which are reflected in the United Nations financial statements.

(c) Use of estimates

10. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are used in the context of expenditure recognition, in particular, but not exclusively, at the end of the financial period to determine the amounts to be retained in respect of unliquidated obligations and liabilities related to after-service health insurance, repatriation grants, travel and shipment costs, and accrued annual leave.

(d) Voluntary contributions and pledges

11. Pledges from Governments and international and other United Nations organizations that are formally accepted by UNHCR are recognized as income for the period to which they relate, in accordance with paragraph 34 of the United Nations system accounting standards. Cash received in advance corresponding to pledges for future years is recorded as "contribution received in advance" at the date of the receipt of cash.

12. Contributions from individual private donors are recorded upon the receipt of cash.

13. Contributions in kind are classified either as budgetary or extrabudgetary. Budgetary in-kind contributions replace commodities that have been budgeted for and that would have been purchased by UNHCR or one of its implementing partners in the normal execution of the programme. Budgetary in-kind contributions are recorded in the accounts, at fair market value, when the goods or services are received. Extrabudgetary in-kind contributions are those for which UNHCR has not made budgetary provision. These are offers of additional materials or services that are considered by UNHCR to be complementary to programmed activities and in line with the mandate of the Office. Extrabudgetary in-kind contributions are not recorded in the accounts but are listed in a separate note to the financial statements (note 22), in line with the technical guidelines for voluntary contributions of supplies and services (see A/44/624, annex).

14. Cash received against pledges is recorded at the United States dollar equivalent, calculated using the United Nations operational rate of exchange prevailing on the date of receipt, as explained in note 2 (f).

15. Pledges due but not received are written off after five years unless the donor has reconfirmed the commitment in writing not more than 18 months before the end of the accounting period, or after the donor has confirmed in writing that payments against the pledges due will no longer be made to the organization.

(e) Interest income

16. Interest income includes all interest from various bank accounts and investment income earned on invested funds. Financial rule 9.3 specifies the conditions for recording of investment income, which provides, inter alia, that income from investments shall be credited to the Annual Programme Fund, unless required to maintain the Working Capital and Guarantee Fund. Interest earned on funds under the Medical Insurance Plan is credited to the Plan.

(f) Currency-exchange adjustments

17. The accounts are presented in United States dollars, in accordance with financial regulation 6.3. Transactions are carried out in a number of currencies and are translated into United States dollars using the United Nations operational rates of exchange, as established by the United Nations Controller, in effect on the date of the transaction. In statement II (Assets, liabilities, reserves and fund balances), the balance of the accounts receivable, accounts payable, cash and cash equivalents and obligations are revalued using the United Nations operational rate of exchange as at 31 December.

18. Currency-exchange adjustments include realized exchange losses and gains on transactions resulting from differences between prevailing market rates and the United Nations operational rate of exchange, and unrealized losses and gains from the revaluation of year-end asset and liability balances based on the United Nations operational rate of exchange. All such realized and unrealized gains and losses are accounted for under the Working Capital and Guarantee Fund.

(g) Miscellaneous income

19. Miscellaneous income includes proceeds from the sale of used or surplus non-expendable property and rental income from UNHCR-provided staff and guest accommodation.

(h) Expenditure

20. Expenditure reflects the amounts obligated according to article 8 of the financial rules.[a] Expenditure includes operational expenses, staff costs, and administrative expenses. The High Commissioner may incur obligations for the implementation of programmes to the extent that moneys and governmental pledges are available in the appropriate fund or account. Whenever possible and appropriate, the implementation of projects is entrusted to implementing partners, for example, governmental, intergovernmental or non-governmental bodies, private firms or individual experts, in accordance with the terms of an agreement or a formal exchange of letters. Projects are implemented in accordance with the terms of a letter of instruction to the responsible officer or organizational unit of UNHCR. Instalments paid or due to implementing partners are charged to expenditure. Should the implementing partner reimburse moneys not used, the refund is recorded to expenditure if received in the current year or as an adjustment to prior-year expenditure if received in a subsequent year. Implementing partners may effect payments towards commitments made during the project duration up to the liquidation date, that is, one month after the end date of the agreement, unless an extension is authorized.

(i) Adjustments to prior-year contributions

21. Refunds to donors for contributions received in prior years, as well as reclassification of contributions recorded in previous years, are recorded as adjustments to prior-year contributions.

(j) Adjustments to prior-year expenditure

22. Adjustments to prior-year expenditure are comprised of refunds of unused cash balances received from implementing partners, write-offs and provisions for doubtful receivables, and any adjustments to expenditure already charged to prior years.

(k) Cancellation of prior-year obligations

23. Cancellation of prior-year obligations relate to unliquidated obligations that were accrued in previous periods and that are no longer required by the Organization.

(l) Deferred charges

24. Deferred charges comprise payments made in advance related to rent and payments made in advance to staff expenditure items which are not properly

[a] The High Commissioner may obligate the necessary funds for the implementation of programmes and projects in accordance with: (a) the terms of the approval given by the Executive Committee for the annual budget; or (b) the terms and conditions of the supplementary budgets; or (c) the conditions governing other funds and accounts.

chargeable in the current financial periods and which will be charged as expenditure in subsequent financial periods. These charges are reported under "Other assets".

(m) Ex gratia payments

25. The granting of ex gratia payments is governed by financial rule 10.5. Ex gratia payments may be approved by the Controller up to an amount not exceeding $5,000, when such payments are considered desirable in the interest of the Organization. Payments over $5,000 require the personal approval of the High Commissioner. A statement of ex gratia payments, if any, is submitted with the annual accounts.

(n) Write-offs

26. Write-offs due to loss of cash or a decrease in the book value of accounts receivable, including the conversion of loans into grants, are governed by financial rule 10.6. Write-offs are recorded as expenditure. If the write-off relates to prior years, it is disclosed under adjustments to prior-year expenditure. The write-off of losses of UNHCR property is governed by financial rule 10.7, which provides that the Controller may authorize these, for amounts up to $10,000, after a full investigation of each case. Amounts over $10,000 require the approval of the High Commissioner. A statement of all amounts written off is submitted with the annual accounts.

(o) Unliquidated obligations

27. Unliquidated obligations are amounts of purchase orders placed, contracts or services awarded or instalments due to implementing partners for which goods or services that had not yet been received by UNHCR at the end of a financial period, that involve a charge against the resources of the current financial period and that will require payment during a subsequent financial period. Such unliquidated obligations at the end of the financial period shall be maintained and shown as a liability in the accounts. An unliquidated obligation that is no longer required in a future financial period will be cancelled.

(p) Expendable property

28. Expendable property comprises goods purchased by UNHCR and consumed either in the course of conducting its normal activities or in distributing relief materials to beneficiaries. Inventories are charged to expenditure as expendable property upon purchase. Inventory comprises materials or supplies intended for distribution to beneficiaries.

(q) Non-expendable property

29. Non-expendable property is categorized as follows:

(a) Tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes, expected to be used during more than one reporting period, regardless of funding source or use, including in-kind donations and having an initial cost equal to or greater than $10,000. Such items include vehicles, communications and information technology equipment, furniture and fixtures, and physical structures;

(b) Other tangible items, with a value of less than $10,000 but higher than $300 and considered to be of an attractive nature, such as computers and telecommunication devices that are serially tracked, that are used by UNHCR to support its day-to-day official business and that are not intended for distribution to beneficiaries.

30. In accordance with the United Nations system accounting standards, non-expendable property is not recorded on the balance sheet, but is charged as expenditure to the appropriate project in the year of acquisition. Supplementary records are maintained to manage non-expendable property and such items are valued therein at the United States dollar equivalent calculated at the United Nations operational rate of exchange prevailing on the date of purchase.

(r) Land and buildings

31. In accordance with the United Nations system accounting standards, land and buildings are capitalized in the accounts at original cost, or at management estimated value if cost records are unavailable. UNHCR does not own any land.

32. No depreciation is provided for buildings.

33. Only buildings of a permanent nature, costing or valued at $10,000 or more and owned by UNHCR, are included. In view of the absence of a definition of buildings in the United Nations system accounting standards, UNHCR defines a permanent building as any structure at a fixed location that is designed or intended for the support, enclosure, shelter or protection of persons or properties, that has a permanent roof and a foundation, that is supported by structural members, and that exists or is intended to exist for a permanent duration or indefinite period. A permanent structure requires a permanent location on the ground or attachment to something at such a location.

(s) Liabilities for accrued end-of-service and post-retirement benefits

34. The organization's employees are entitled, under their conditions of employment, to payment of accrued annual leave, as well as termination and repatriation benefits. UNHCR recognizes the end-of-service accrued benefit liabilities related to after-service health insurance, accrued annual leave and repatriation entitlements. All of these liabilities are unfunded liabilities as at 31 December 2011, and are shown under the Staff Benefits Fund.

(t) Related-party transactions

35. Note disclosure is made of all related-party relationships where control exists, irrespective of whether or not there have been transactions between the related parties, and of all transactions with the related parties. UNHCR considers the holders of the following five key management positions to be related parties: High Commissioner, Deputy High Commissioner, Assistant High Commissioner (two) and Controller.

(u) Going concern

36. The financial statements report negative equity as a result of the full recognition of long-term liabilities for after-service and post-retirement benefits and, in accordance with the United Nations system accounting standards, the

incomplete recognition of non-current assets. Based upon firm pledges received for future periods and the level of funding available for current liabilities expected to fall due, there is a firm expectation that UNHCR has adequate resources to continue its normal operations for the foreseeable future. It is therefore appropriate to use the going concern basis of accounting in preparing the annual financial statements.

Note 3
United Nations regular budget contribution

37. In accordance with paragraph 20 of the statute of the Office of the United Nations High Commissioner for Refugees, administrative expenditure relating to the functioning of UNHCR is borne under the regular budget of the United Nations, and all other expenditure relating to the activities of UNHCR is financed by voluntary contributions. Currently, the contribution from the regular budget finances an equivalent of 220 posts in the management and administrative category, general operating expenses, supplies and materials and joint activities, and corresponds to only part of the administrative expenditure incurred by UNHCR.

38. Income from the regular budget in 2011 at the final appropriation rates amounted to $44,058,600. This amount was fully expended for staff costs, including the posts of High Commissioner and Deputy High Commissioner ($41,745,009), and other management and administrative costs ($2,313,591).

39. In 2011, in the interest of greater transparency, UNHCR is showing the regular budget contribution as a separate income line item in statement I. The 2010 comparative figure for voluntary contributions has been restated to exclude the regular budget contribution for that year ($39,640,800). This amount is then shown as the 2010 comparative figure on the regular budget contribution line. All other 2010 comparative figures in statement I are consistent with the financial statements for 2010.

Note 4
Transfers between programmes and funds

40. The following table shows net transfers made between programmes and funds in 2011, along with comparative figures for 2010:

(Thousands of United States dollars)

	Working Capital and Guarantee Fund	*Annual Programme Fund*	*Reintegration Projects Fund*	*Internally Displaced Persons Projects Fund*	*Junior Professional Officers Fund*	*Staff Benefits Fund*	*Net transfer*
Replenishment	(20 233)	20 233	–	–	–	–	–
Administrative costs[a]	–	18 488	(2 899)	(15 589)	–	–	–
Transfer to cover budgets[b]	–	(223 405)	78 333	145 072	–	–	–
Junior Professional Officer administration costs[c]	–	1 151	–	–	(1 151)	–	–

	Working Capital and Guarantee Fund	*Annual Programme Fund*	*Reintegration Projects Fund*	*Internally Displaced Persons Projects Fund*	*Junior Professional Officers Fund*	*Staff Benefits Fund*	*Net transfer*
Inter-fund transactions	–	(24)	–	–	–	24	–
Net transfer 2011	**(20 233)**	**(183 557)**	**75 434**	**129 483**	**(1 151)**	**24**	**–**
Net transfer 2010	**18 066**	**(181 711)**	**43 045**	**122 081**	**(1 333)**	**(148)**	**–**

[a] See para. 41.
[b] See para. 42.
[c] See para. 43.

41. Funds were transferred to the Annual Programme Fund from the Reintegration Projects Fund and the Internally Displaced Persons Projects Fund to cover administrative costs incurred in the Annual Programme Fund in support of those two funds for 2011.

42. Earmarked contributions are recorded in the appropriate fund. Unearmarked or loosely earmarked contributions are initially recorded in the Annual Programme Fund; they are subsequently either used to fund the budgets of the Annual Programme Fund or transferred to cover the approved budgets of other funds at the end of the year.

43. An equivalent to 12 per cent of the expenditure incurred was transferred from the Junior Professional Officers Fund to the Annual Programme Fund in respect of support costs incurred by UNHCR to manage the Junior Professional Officers Fund.

44. Actual expenditure for staff and administrative costs are apportioned to the Annual Programme Fund, the Reintegration Projects Fund and the Internally Displaced Persons Projects Fund, using a budget apportionment based on the estimated level of staff time and administrative budget required for the delivery of results.

45. As at 31 December 2011, expenditure pertaining to staff and administrative costs of $700,149,844 (2010: $606,360,492) was apportioned to pillars 1 and 2 (Annual Programme Fund and United Nations Regular Budget Fund), $41,164,651 (2010: $23,847,904) to pillar 3 (Reintegration Projects Fund) and $102,744,170 (2010: $97,545,324) to pillar 4 (Internally Displaced Persons Projects Fund). Expenditure for the Junior Professional Officers Fund is not apportioned and is reported separately.

Note 5
Breakdown of expenditure

46. The following table shows total UNHCR expenditure in 2011, broken down by fund and category:

(Thousands of United States dollars)

Fund	*Programme*[a]	*Programme Support*[b]	*Management and Administration*[c]	*Total 2011*	*Total 2010*
Annual Programme Fund, Reintegration Projects Fund and Internally Displaced Persons Projects Fund	1 769 126	278 251	80 074	2 127 451	1 827 421
Regular budget contribution			44 059	44 059	39 641
Subtotal	**1 769 126**	**278 251**	**124 133**	**2 171 510**	**1 867 062**
Junior Professional Officers Fund[d]				9 590	11 111
Medical Insurance Plan[e]				5 420	4 437
Working Capital and Guarantee Fund[f]				2 210	1 958
Staff Benefits Fund[g]				89 650	37 927
Total expenditure				**2 278 380**	**1 922 495**

[a] See para. 47 below.
[b] See para. 48 below.
[c] See para. 49 below.
[d] See para. 50 below.
[e] See para. 51 below.
[f] See para. 52 below.
[g] See para. 53 below.

47. Expenditure under the "Programme" category corresponds to the direct financial inputs used to achieve the objectives of a specific project or programme, including the costs of staff, consultant experts, supplies and equipment, subcontracts, cash assistance and training, and instalments disbursed to implementing partners. Implementing partners are required to report on their disbursements against instalments received from UNHCR, in accordance with the terms and conditions of implementing partner agreements. The following tables show the balances of instalments for which the financial reports of implementing partners remained outstanding at the end of the year (final reports are due on 28 February of the subsequent year, subject to the extension of liquidation period for the agreements):

(Thousands of United States dollars)

Current year agreements	*2011*	*2010*
Implementing partner instalments disbursed or committed during the year	794 311	676 942
Implementing partner financial reports received during the year	(500 421)	(386 404)
Outstanding balance for which reports are due	**293 890**	**290 538**

(Thousands of United States dollars)

Prior-year agreements	*2011*	*2010*
Outstanding balance for which reports are due	–	**1 740**

48. Expenditure under the "Programme support" category corresponds to the costs of organizational units whose primary functions are the formulation, development, delivery and monitoring of UNHCR programmes, including the units which provide backstopping of programmes on a technical, thematic, geographical, logistical or administrative basis.

49. Expenditure under the "Management and administration" category corresponds to the costs of organizational units whose primary function is the maintenance of the identity, direction, and welfare and security of UNHCR staff, and includes units which carry out the functions of executive direction, organizational policy and evaluation, external relations and information, and administration.

50. The following table shows expenditure, by region and in descending order of expenditure level, under the Junior Professional Officers Fund during 2011:

(Thousands of United States dollars)

Region	*2011*	*2010*
Africa	3 215	3 951
Headquarters	2 487	2 476
Asia and the Pacific	1 336	1 619
Americas	871	1 014
Middle East and North Africa	815	805
Global programmes	567	458
Europe	299	788
Total expenditure	**9 590**	**11 111**

These amounts include salaries and other employment-related expenditure incurred and related to Junior Professional Officers.

51. As at 31 December 2011, the Medical Insurance Plan received a total income of $7,734,264 (2010: $6,680,757) from staff premiums and UNHCR proportional contributions, in addition to $323,797 (2010: $177,397) in interest earned. Total expenditure incurred under the Plan amounted to $5,420,303 (2010: $4,436,570). This amount included payments to settle medical bills submitted by members. It also included the salary and employment-related entitlements and expenditure of the two UNHCR staff operating the scheme.

52. The main elements of the Working Capital and Guarantee Fund include interest income (excluding the amount allocated to the Medical Insurance Plan) of $1,202,690 (2010: $910,487), as well as a net currency-exchange gain of $21,241,225 (2010: currency-exchange loss of $17,052,014). Bank charges amounted to $2,210,353 as at 31 December 2011 (2010: $1,957,555).

53. The expenditure of the Staff Benefits Fund reflects accrued after-service health-insurance benefits (net of paid benefits) of $21,244,000 (2010: $30,328,000), accrued repatriation grant (net of paid benefits) of $605,000 (2010: $930,000) and accrued annual leave of $14,634,028 (2010: $3,173,797) earned by UNHCR staff. It also includes the effect of an actuarial loss in respect of after-service health insurance of $42,979,000 (2010: gain disclosed as income) and an actuarial loss in respect of the repatriation grant of $10,035,000 (2010: $3,355,000), as well as staff and related costs of $152,488 (2010: $139,846).

Note 6
Adjustments to prior-year expenditure

54. Adjustments to prior-year expenditure amounted to a reduction in expenditure of $3,083,652 in 2011 (2010: $8,331,563).

55. Provision of $22,830,000 was made for doubtful receivable balances, including $23,040,000 for unpaid contributions (note 14). Amounts written off totalled $12,871,000. These charges were offset by refunds from implementing partners of unused cash balances amounting to $20,179,000, plus other net credit adjustments of $18,606,000.

56. UNHCR conducted a major review of its principal receivable accounts and consequently wrote off accounts receivable in the amount of $8,289,000. This is part of the total write-off of $12,871,000 shown in the following table:

(Thousands of United States dollars)

	2011	*2010*
Unpaid contributions	5 816	5 678
Operational advance and others	3 503	1
Implementing partners	2 308	133
Value added tax	872	105
United Nations agencies	372	–
Total	**12 871**	**5 917**

57. This major review also led to the significant increase in the provision for doubtful receivables noted above.

Note 7
Ex gratia payments

58. No ex gratia payments were effected during 2011 (2010: $15,249).

Note 8
Cash and term deposits

59. The amount shown in statement II for cash and term deposits represents the total of all cash balances (including funds held in non-convertible currencies), net of any negative bank balances. Table (a) below shows the breakdown between current and deposit accounts as at 31 December 2010 and 31 December 2011, table (b)

provides details of term deposits by financial institution, and table (c) provides details of non-convertible currencies held at year-end at United States dollar equivalent values.

(a) Cash deposits

(Thousands of United States dollars)

	2011	*2010*
Cash deposits as at 31 December		
Cash and current accounts	70 377	68 809
Pooled interest-bearing accounts	24 702	77 296
Invested funds (term deposits)	438 964	290 000
Investments and pooled interest-bearing accounts	463 666	367 296
Unrealized exchange gain	865	977
Total	**534 908**	**437 082**
Average holdings during year for headquarters accounts		
In pooled interest-bearing accounts	108 321	95 360
In invested funds	299 055	208 114
Total	**407 376**	**303 474**
Interest earned		
On pooled interest-bearing accounts	440	404
On invested funds	1 086	683
Total	**1 526**	**1 087**
Average rate of interest earned		
On pooled interest-bearing accounts (per entage)	0.41	0.42
On invested funds (percentage)	0.36	0.33

(b) Term deposits

(Thousands of United States dollars)

Bank	*Period (days)*	*Interest rate (percentage)*	*Maturity date*	*Deposit currency*	*Amount (United States dollar equivalent)*
Banco Santander SA	49	1.500	17 Feb 2012	United States dollar	37 000
BNP Paribas	63	0.550	20 Jan 2012	United States dollar	40 000
Commonwealth Bank of Australia	57	0.060	24 Feb 2012	United States dollar	40 000
Deutsche Bank	4	0.200	03 Jan 2012	Euro	12 920
Deutsche Bank	7	0.230	06 Jan 2012	Euro	9 044

Bank	Period (days)	Interest rate (percentage)	Maturity date	Deposit currency	Amount (United States dollar equivalent)
HSBC Bank	23	0.045	13 Jan 2012	United States dollar	60 000
Nordea Bank	70	0.350	27 Jan 2012	United States dollar	20 000
Nordea Bank	63	0.320	17 Feb 2012	United States dollar	20 000
Nordea Bank	65	0.400	24 Feb 2012	United States dollar	20 000
Rabobank International	70	0.310	27 Jan 2012	United States dollar	20 000
Rabobank International	66	0.310	10 Feb 2012	United States dollar	40 000
Standard Chartered Bank	70	0.400	03 Feb 2012	United States dollar	60 000
Svenska Handelsbanken	42	0.190	06 Jan 2012	United States dollar	60 000
Total as at 31 December 2011					**438 964**[a]

[a] The total as at 31 December 2010 was $290,000.

(c) Non-convertible currencies held as at 31 December 2011 and 31 December 2010

(Thousands of United States dollar equivalent)

Country	Currency	2011	2010
Afghanistan	afghani	19	43
Albania	lek	6	23
Angola	kwanza	300	187
Bosnia and Herzegovina	convertible mark	24	1
Burundi	franc	206	168
Eritrea	nafka	302	259
Ethiopia	birr	656	662
Myanmar	kyat	14	4
Mozambique	new metical	258	196
Nigeria	naira	180	174
Syrian Arab Republic	pound	1 262	1 260
Total		**3 227**	**2 977**

Note 9
Voluntary contributions receivable

60. The voluntary contributions receivable balance in statement I: represents contributions outstanding from donors after year-end currency revaluation and net of a provision for doubtful accounts receivable. The ageing of contributions receivable is as follows:

(Thousands of United States dollars)

	2011	*2010*
2011	53 172	–
2010	10 241	72 419
2009	1 380	23 108
2008	75	3 872
2007	–	1 036
2006	–	413
2005	100	132
2004	–	2
Total	**64 968**	**100 982**
Unrealized exchange loss	(2 883)	(2 262)
Total as per statement II	**62 085**	**98 720**

61. The following table shows the status of outstanding contributions as at 31 December 2011:

(Thousands of United States dollars)

Donors	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*Total 2011*	*Total 2010*
Governmental donors									
Andorra							10	10	–
Australia								–	342
Austria							102	102	–
Belgium					151		6 229	6 380	154
Brazil							546	546	200
Canada								–	3
Costa Rica							1	1	2
Cyprus								–	1
Denmark								–	3 513
Estonia								–	66
Germany								–	81
Greece							2 068	2 068	11
Hungary								–	174
Iceland								–	99
Ireland								–	159
Italy						1 000	2 635	3 635	2 178
Kuwait								–	1 000
Luxembourg								–	146

Donors	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*Total 2011*	*Total 2014*
Malta							41	41	20
Mauritania								–	8
Mexico								–	75
Monaco								–	29
Montenegro						6		6	11
Netherlands								–	78
Norway								–	243
Portugal								–	1 339
Qatar							100	100	–
Saudi Arabia	100				112			212	7 539
Singapore							10	10	–
South Africa								–	24
Spain							905	905	18 393
Sweden						15	30	45	53
Switzerland							2 562	2 562	770
United Arab Emirates								–	16 556
United Kingdom of Great Britain and Northern Ireland								–	3 905
United States of America							1 616	1 616	3 861
Governmental donors	**100**	**–**	**–**	**–**	**263**	**1 021**	**16 855**	**18 239**	**61 033**
European Commission	**–**	**–**	**–**	**–**	**924**	**8 974**	**34 229**	**44 127**	**36 928**
Intergovernmental donors									
African Union							100	100	–
Council of Europe Development Bank							39	39	1
International Organization for Migration						38	155	193	140
OPEC Fund for International Development								–	500
National Multisectoral Programme against HIV/AIDS								–	726
Intergovernmental donors	**–**	**–**	**–**	**–**	**–**	**38**	**294**	**332**	**1 367**
United Nations pooled funding mechanism									
Joint United Nations Programme on HIV/AIDS				56	100			156	156
United Nations Development Programme				19			1 225	1 244	19
United Nations Trust Fund for Human Security							294	294	–

Donors	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*Total 2011*	*Total 2010*
One United Nations Fund					43		275	318	81
Emergency Relief Fund					50			50	50
United Nations Millennium Development Goals						208		208	651
United Nations Children's Fund								–	8
Common Humanitarian Fund								–	450
World Food Programme								–	239
United Nations pooled funding mechanism	–	–	–	75	193	208	1 794	2 270	1 654
Total outstanding contributions	100	–	–	75	1 380	10 241	53 172	64 968	100 982
Unrealized loss on exchange								(2 883)	(2 262)
Total outstanding contributions as per statement II								62 085	98 720

Note 10
Voluntary contributions pledged for the Annual Programme Budget for 2012

62. Governmental donors to UNHCR pledged $482,484,161 towards the 2012 annual budget (2010: $500,307,946 towards the 2011 annual budget). Those pledges are not reflected in the accounts of 2011.

Note 11
Due from United Nations and other agencies

63. The amounts due from United Nations and other agencies in statement II are stated net of a provision for doubtful accounts receivable, as follows:

(Thousands of United States dollars)

	2011	*2010*
United Nations Development Programme	965	338
United Nations Headquarters	289	492
Office for the Coordination of Humanitarian Affairs	119	267
United Nations Relief and Works Agency for Palestine Refugees in the Near East	91	–
United Nations High Commissioner for Human Rights	14	13
Other United Nations agencies	13	3
Office of the United Nations Security Coordinator	–	29
Total	**1 491**	**1 142**

Note 12
Due from implementing agencies (net)

64. The amounts due from implementing agencies in statement II are stated net of a provision for doubtful balances. The movement in the net balance due from implementing agencies is explained in the following table:

(Thousands of United States dollars)

	2011	*2010*
Opening net balance due from implementing agencies	2 049	2 725
Refund/adjustment of balance due	(1 877)	(1 325)
Balance written off	(2 308)	(133)
Decrease/(increase) in provisions of doubtful receivables	328	(48)
Balance due, recognized during the year	2 192	1 053
Unrealized exchange gain/(loss)	192	(223)
Closing net balance due from implementing agencies	**576**	**2 049**

Note 13
Other receivables

65. The amounts in statement II under other receivables represent payroll and staff-related entitlements, and other elements pending settlement or recovery, net of relevant provision for doubtful accounts, as follows:

(Thousands of United States dollars)

	2011	*2010*
Education grant advances	13 353	12 125
Value added tax reimbursable	3 198	1 148
Medical advances	1 705	1 411
Non-staff-related and miscellaneous receivables	1 691	2 103
Salary advances	1 402	2 028
Field operational advances	1 218	1 247
Rental advances	1 078	1 483
Deposits with suppliers	805	630
Staff receivables	577	455
Travel advances	106	96
Unrealized exchange loss	(4 153)	(1 471)
Total	**20 980**	**21 255**

Note 14
Provision for doubtful accounts receivable

66. Accounts receivable are presented in statement II, net of a provision for doubtful accounts receivable comprising:

(Thousands of United States dollars)

	Provision 31/12/2010	*Write-offs*	*Recovery*	*Adjustments*	*Provision 31/12/2011*
Unpaid contributions	2 359	(2 588)	(33)	23 040	22 778
Value added tax	8 777	(827)	–	(2 110)	5 840
Implementing partners	1 978	(1 911)	(11)	1 594	1 650
Staff receivables	1 463	(138)	(3)	(428)	894
Non-staff receivables	92	–	–	442	534
United Nations agencies	–	–	–	292	292
Total	**14 669**	**(5 464)**	**(47)**	**22 830**	**31 988**

67. The amounts shown under the adjustments column are the results of a review conducted at the end of financial year 2011.

Note 15
Other assets

68. The balance of other assets reported in statement II, amounting to $2,001,712, includes payments made in advance for costs to be incurred against future years and accrued interest on investments.

Note 16
Land and buildings

69. As at 31 December 2011, the capital assets of the organization, expressed in United States dollars, comprised permanent buildings (at cost or valuation) at the following locations:

(Thousands of United States dollars)

Description	*Year of acquisition*	*Amount*
Office building, Kinshasa (cost)	2008	3 600
Office building, Betou (cost)	2004	26
Office building, Khartoum (cost)	1994	542
Staff canteen building in office compound, Khartoum (cost)	2010	47
Three staff buildings, Kassala, Sudan (cost)	2010	42
Two staff accommodation buildings, Juba (cost)	2010	273
Office building and staff accommodation, Pakele, Adjumani, Uganda (management valuation)	1988	290

Description	*Year of acquisition*	*Amount*
Office building and staff accommodation, Nakivale, Mbarara, Uganda (management valuation)	2009	106
Office building and staff accommodation, Arua, Uganda (management valuation)	1989	85
Office building and staff accommodation, Kyaka, Mbarara, Uganda (management valuation)	2002	70
Office building, Pader, Gulu, Uganda (management valuation)	2008	40
Staff accommodation, Kyangwali, Uganda (management valuation)	2009	28
Office building, Gulu, Uganda (management valuation)	2007	12
Logistics office building, Mwanza, United Republic of Tanzania (management valuation)	1996	46
Office building, Kasulu, United Republic of Tanzania (management valuation)	1999	25
Office building, Kigoma, United Republic of Tanzania (management valuation)	1999	15
Total		**5 247**

70. As at 31 December 2010, only the building in Kinshasa costing $3,600,000 and the building in Khartoum costing $542,000, amounting to a total of $4,142,000, were included in the statement of assets, liabilities, reserves and fund balances.

71. In 2011, as a result of verification, UNHCR capitalized and disclosed in the accounts an additional 21 permanent buildings used as office and staff accommodation, with a total value of $1,105,000.

Note 17
Non-expendable property

72. The acquisition value of non-expendable property held as at 31 December 2011 was $319,321,165. During 2011, UNHCR increased the threshold of recognition of non-expendable property from $5,000 to $10,000. This meant that the ceiling for other tangible items that are serially tracked rose from $5,000 to $10,000, so that these items would fall within the value range $300 to $10,000.

73. The acquisition value of non-expendable property held as at 31 December 2010, based upon the former threshold, was $321,074,178. Due to the change of threshold mentioned above, these two amounts are not comparable.

Note 18
Accounts payable

74. The amount in statement II under accounts payable represents liabilities to suppliers and other elements pending settlement as follows:

(Thousands of United States dollars)

	2011	2010[a]
Commercial suppliers	38 565	15 552
Payroll and other staff-related entitlements	5 715	4 670
Other United Nations organizations	3 281	2 778
Other staff payables	1 560	2 258
Accrued United States taxes	1 526	6 348
Unrealized exchange (gain) or loss	(3 552)	(582)
Total	**47 155**	**31 024**

[a] In the interest of improved disclosure, liabilities related to staff entitlements but actually payable to other United Nations organizations (pension, health insurance) were reclassified from "Payroll and other staff-related entitlements" to "Other United Nations organizations" under accounts payable in 2011. In order to ensure comparability, 2010 figures were restated accordingly.

Note 19
Liabilities for end-of-service and post-retirement benefits

75. The amount in statement II under end-of-service liabilities represents liabilities for end-of-service accrued benefits as follows:

(Thousands of United States dollars)

	2011	2010
After-service health insurance entitlements	350 773	286 550
Repatriation entitlements	80 391	69 751
Annual leave entitlements	51 754	37 119
Voluntary separation costs	565	278
Total	**483 483**	**393 698**

76. The following assumptions have been used to determine the value of UNHCR liabilities for after-service health insurance and repatriation benefits as at 31 December 2011:

General assumptions

Baseline discount rate	6.15 per cent as at 31 December 2009 5.55 per cent as at 31 December 2010 5.10 per cent as at 31 December 2011
Basis for determining discount rate	Spot rates for high-quality corporate bond payable in euros
Expected rate of return on assets	Not applicable to UNHCR

Mortality	*Pre-retirement mortality*. Increases according to age, based on 31 December 2009 actuarial valuation of the United Nations Joint Staff Pension Fund. As an indication, at age 65, the rate for male employees is 0.49 per cent and for female employees, 0.30 per cent
	Post-retirement mortality. Increases according to age, based on 31 December 2009 actuarial valuation of the United Nations Joint Staff Pension Fund. As an indication, at age 65, the rate for male retirees and their spouses is 0.41 per cent, and for female retirees and their spouses, 0.46 per cent
Withdrawal rates	Based on 31 December 2009 actuarial valuation of the United Nations Joint Staff Pension Fund. Varies according to gender and age, increasing from the age of 60 years
Disability incidence	None assumed
Retirement rates	Based on 31 December 2009 actuarial valuation of the United Nations Joint Staff Pension Fund
	Hired prior to 1 January 1990, varies according to gender, age and years of service, with higher probability of retirement for staff aged 60 years and over
	Hired after 1 January 1990, varies according to gender, age and years of service, with higher probability of retirement for staff aged 62 years and over
Measurement date	31 December

Assumptions used in valuation of after-service health insurance obligations

Baseline trend rates in health-care costs	The rate of increase in the payment of claims under the United Nations Staff Mutual Insurance Society plan is 4.4 per cent for 2011, with the rate falling by 0.10 per cent per year until 2025, after which it is expected to remain at 3 per cent. The rate of increase in the payment of claims for 2011 under the Medical Insurance Plan is 5.912 per cent, with this rate of increase falling by 0.088 per cent
Marital status	*Percentage married at retirement*. 60 per cent of future retirees are assumed to be married at retirement and to elect coverage for their spouse
	Age difference of spouses. For future retirees with spouses, males are assumed to be three years older than females; for spouses of current retirees, actual reported spouse ages are used
Plan participation	Of active plan participants who are expected to meet the eligibility requirements for after-service health insurance, 95 per cent are assumed to participate in the plan. It is assumed that, once elected, coverage will not be dropped

Ageing assumption	The ageing assumption rate for those under 65 is 3.5 per cent, decreasing at a rate of 0.5 per cent every five-year period from the age of 65 years
Development of claim costs	*United Nations Staff Mutual Insurance Society*. Age 65 per capita claim costs were developed based on experience in 2009, 2010 and 2011 in respect of the payment of claims for retirees (reported in Swiss francs for UNHCR retirees), adjusted for trend, ageing and United Nations operational rate of exchange as of the valuation date
	Medical Insurance Plan. Age 65 per capita claim costs were developed as blend of per capita claim costs based on experience in 2009, 2010 and 2011 in respect of the payment of claims for UNHCR (reported in United States dollars), adjusted for trend and ageing
	The costs of claims under the United Nations Staff Mutual Insurance Society and Medical Insurance Plan include a provision for administrative expenses. The valuation does not include any provision for future changes in currency-exchange rates
Retiree contributions	Retiree contributions vary by individual and are a percentage of the retiree's pension; contributions increase annually but do not change when a former employee or their spouse reaches 65 years of age
	In aggregate, contributions are assumed to equal the following percentage of cost: for the United Nations Staff Mutual Insurance Society, 27.7 per cent; for the Medical Insurance Plan, 31.6 per cent
	Future retiree contributions are assumed to increase at the assumed trend rates in health-care costs

Assumptions used in valuation of repatriation benefit obligations

Marital status	50 per cent of employees are assumed to be married
Plan participation	It is assumed that all Professional staff are eligible for these benefits and will receive them upon separation from service
Salary scale	Salary increases are based on static increases in pensionable remuneration
Repatriation travel costs	Average travel reimbursement or lump-sum payment is assumed to be $16,613 in 2012; this amount is assumed to increase by 4 per cent in future years

(a) After-service health insurance

77. After-service coverage is available in the form of continued membership in the United Nations Mutual Insurance Society, in an insurance scheme of another organization in the United Nations family, or through the Medical Insurance Plan for retired locally recruited staff members who served at designated duty stations away from Headquarters, and their eligible dependants.

78. The organization's liability for after-service health insurance has been estimated by an independent actuary. On the basis of that estimate, the value of the accrued liability of UNHCR for after-service health insurance as at 31 December 2011 is $350,773,000, compared with $286,550,000 in 2010, as shown in the following table:

(Thousands of United States dollars)

	Present value of future benefits	*Accrued liability*
Gross liability	993 843	488 355
Offset from retiree contributions	279 951	137 582
Net liability as at 31 December 2011	**713 892**	**350 773**

79. The present value of future benefits is the discounted value of all benefits, less retiree contributions, to be paid in the future to all current retirees and active staff expected to retire. The accrued liability represents that portion of the present value of benefits that has accrued from the staff member's date of entry on duty until the valuation date. An active staff member's benefit is fully accrued when that staff member has reached the date of full eligibility for after-service benefits. Thus, for retirees and active staff members who are eligible to retire with benefits, the present value of future benefits and the accrued liability are equal. Liabilities are calculated using the projected unit credit method, whereby each participant's benefits under the plan are expensed as they accrue, taking into consideration the plan's benefit allocation formula.

80. The benefits of the post-retirement plan are funded on a pay-as-you-go basis. While no assets have yet been segregated and restricted to provide for post-retirement benefits, UNHCR will commence to fund its after-service health insurance liabilities in 2012 through a monthly payroll charge of 3 per cent and to build a reserve for repatriation benefits by allocating a maximum of $2.0 million staff cost savings on an annual basis. The actuarial gains and losses are recognized as they occur. The income statement for 2011 reflects an actuarial loss of $42,979,000 (2010: actuarial gain of $91,196,000).

81. The impact of changes in assumed health-care trend rates on the statement of income and expenditure and changes in reserves and fund balances is as follows:

Effect on combined service and interest cost components of net periodic post-employment medical costs

(Thousands of United States dollars)

	2011	*2010*
One percentage point increase	6 732	9 284
One percentage point decrease	(5 109)	(7 025)

Effect on year-end accumulated post-employment benefit obligation

(Thousands of United States dollars)

	2011	*2010*
One percentage point increase	90 361	62 249
One percentage point decrease	(68 194)	(48 553)

(b) Repatriation grant, travel and shipment

82. In line with the Staff Regulations and the Staff Rules of the United Nations, some staff members are entitled to repatriation grants and related relocation costs upon their separation from the organization, based on the number of years of service. The organization's accrued liability for repatriation grant and travel, as determined by the actuary, is $80,391,000 as at 31 December 2011, compared with $69,751,000 in 2010:

(Thousands of United States dollars)

	Present value of future benefits	*Accrued liability*
Repatriation grant	64 483	52 565
Travel and shipment	27 826	27 826
Net liability as at 31 December 2011	**92 309**	**80 391**

(c) Change in present value of obligations

83. The following table shows UNHCR obligations in respect of after-service health insurance and repatriation benefits in 2011 and 2010:

(Thousands of United States dollars)

	After-service health insurance		*Repatriation*	
	2011	*2010*	*2011*	*2010*
Obligation at end of prior year	286 550	347 418	69 751	65 466
Service cost	10 773	14 177	2 368	2 093
Interest on obligation	15 757	21 211	3 719	3 871
Benefits paid (net of participants' contribution)	(5 286)	(5 060)	(5 482)	(5 034)
Actuarial (gain)/loss	42 979	(91 196)	10 035	3 355
Obligation at end of year	**350 773**	**286 550**	**80 391**	**69 751**

(d) Annual expense for after-service health insurance and repatriation benefits

84. The annual expense for after-service health insurance and repatriation benefits is as follows:

(Thousands of United States dollars)

	After-service health insurance		*Repatriation*	
	2011	*2010*	*2011*	*2010*
Service cost	10 773	14 177	2 368	2 093
Interest cost	15 757	21 211	3 719	3 871
Actuarial (gain)/loss	42 979	(91 196)	10 035	3 355
Total	**69 509**	**(55 808)**	**16 122**	**9 319**

(e) Accrued annual leave

85. Separating staff are entitled to be paid for any unused annual leave they may have accrued, up to a maximum of 60 days. Total liability for such accrued leave is estimated to be $51,752,857 as at 31 December 2011, compared with $37,118,829 as at 31 December 2010.

86. The calculation of the liability has changed from prior years. In 2010, the liability was calculated on the basis of an average of 32 leave days multiplied by the number of staff and prevailing salary scale using a mid-point reference for General Service and Professional salary scales at duty stations in Geneva, Belgrade and Budapest. For 2011, the liability was calculated as a product of individual daily salary rates for December 2011 and the individual accumulated 2011 leave day balances as per the annual leave balance report generated by the newly implemented online absence and vacation module.

(f) Pension plan

87. UNHCR is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a defined-benefit plan. The

financial obligation of the organization to the Fund consists of its mandated contribution at the rate established by the General Assembly, together with any share of any actuarial deficiency payments under article 26 of the regulations of the Fund. Such deficiency payments are payable only if and when the General Assembly invokes the provision of article 25, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. At the time of reporting, the General Assembly had not invoked that provision. According to the annual report of the Pension Fund for 2011, the result of the most recent actuarial valuation as at 31 December 2009 was an actuarial deficit of 0.38 per cent of pensionable remuneration. The 0.38 per cent deficit means that the theoretical contribution rate required to achieve balance as at 31 December 2009 was 24.08 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent.

(g) Voluntary separation costs

88. Voluntary separation costs represent the liability incurred for special separation schemes. These costs relate to payments in lieu of notice, cash assistance for training and termination indemnities.

Note 20
Contingencies

89. A total of 19 administrative appeal cases are currently filed against UNHCR and are pending. Seven legal claims are also pending. It is not possible either to establish the likelihood of the outcome of these cases or to estimate the cost of any possible settlement should it occur.

Note 21
Related-party transactions

90. There were no material transactions with related parties during 2011. The aggregate value of remuneration and compensation pertaining to key management personnel was as follows:

(Thousands of United States dollars)

	Number of individuals		*Aggregate remuneration*		*Organization's contribution to pension, medical insurance*		*Total*	
	2011	*2010*	*2011*	*2010*	*2011*	*2010*	*2011*	*2010*
High Commissioner	1	1	316	273	56	54	372	327
Deputy High Commissioner	1	1	320	301	54	48	374	349
Assistant High Commissioner	2	2	555	468	103	99	658	567
Controller	2	2	259	266	46	53	305	319
Total	**6**	**6**	**1 450**	**1 308**	**259**	**254**	**1 709**	**1 562**

91. There were no salary advances, entitlements or remuneration provided to key management personnel which were not available to other categories of staff. There

were no other financial transactions with key management personnel and their close family members during the year.

Note 22
Extrabudgetary in-kind contributions

92. The value of extrabudgetary in-kind donations to UNHCR in 2011 amounted to $11,450,000, compared with $6,580,000 in 2010. Details by donors are shown in the following table:

Donor	*2011*	*2010*
Government of Algeria	3 000	–
Government of Germany	2 875	3 702
Lutheran World Relief USA	1 176	–
Lego Foundation Denmark	894	–
Government of Saudi Arabia	844	–
Government of United Arab Emirates	685	688
Government of Sweden	613	530
Government of Spain	469	458
Government of Hungary	273	199
World Food Programme	219	–
Manpower Inc. (United Kingdom of Great Britain and Northern Ireland)	100	–
RedR Australia	93	390
United Nations Population Fund	83	–
Government of Poland	67	72
International Olympic Committee, Switzerland	51	–
United Nations Children's Fund	8	–
Government of Israel	–	500
Sony Corporation, Japan	–	41
Total	**11 450**	**6 580**

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